INSIGHTS

NOVEMBER 2024



THE SECONDARY MARKET

NAVIGATING GROWTH AND COMPLEXITY

SUPPORTED BY: SS&C

EXECUTIVE SUMMARY

The PE secondary market is breaking records, currently on track to reach up to $150bn in sales through 2024 according to a Financial Times report from October. This would mark a 25% jump on 2023 levels, and smash the 2021 record of $132bn.

The question remains – is the market arriving at its peak? Thriving secondaries have been a product of an elevated interest rate environment and the resultant asset logjam. With green shoots of recovery emerging in the M&A landscape, and the market cycle gradually arriving at its next phase, how much longer will secondary volumes sustain themselves?

Much longer, say fund managers and allocators. Private Equity Wire's Q4 2024 GP Survey of 150+ managers reveals distinct optimism about the asset class' growth – with 83% expecting these transactions to increase over the next 6-12 months. Among the growth drivers is evolving sophistication in GP-led and LP-led processes, which has increased their applicability across market cycles. We explore all the market trends and pockets of opportunity in section one.

In section two, we ask managers if they're prepared for the scale and complexity of growth underway in secondaries. Speedy transaction lifecycles and vast pools of data to process have put operational and technological prowess in the spotlight, and large firms are upping their investments in technology – including AI – to aid the process.

It's an exciting space, and we plan to continue to track its progress in detail. We'll unpack the findings of this report in a *webinar* early next year, and will be doing a follow-up piece of research on secondaries in February. A big thank you to our research partners, SS&C, for their insight and participation in our secondaries series.

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HEAD OF PRIVATE MARKETS CONTENT

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METHODOLOGY

The data presented in this report is based on a survey of 150+ private markets fund managers. Data was collected over the course of Q4 2024 from senior leadership and C-suite respondents across North America, Europe, Asia Pacific and other key geographies.

Survey analysis is complemented with qualitative interviews with senior leadership at top-tier PE firms and allocator organisations, alongside knowledge and insight aggregated from a range of media, news and research resources – including Bloomberg, Reuters and the Financial Times.

83% of managers expect secondaries volumes to increase over the next 6-12 months

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38% say that structural or operational incapacity is the biggest barrier to scaling up their secondary strategy

Main Challenges: Portfolio management (18%), Process efficiency (17%), Data ingestion/aggregation (17%)

36% say most of their secondaries transactions over the past 6-12 months have been GP-led

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33% are primarily buyers on the secondary market

41%

of managers rank interest rates as the top growth driver for secondaries

> **We're yet to see any material difference in pre- and post-election attitudes.**
>
> Pinal Nicum
> Partner, Secondary Investments, Adams Street

GROWTH AND DIVERSIFICATION

The ongoing growth drivers in the PE secondary market, and how buyers, sellers, investors and managers all stand to gain.

With 28,000 unsold assets on PE buyout books worldwide, worth $3.2tn according to Bain & Company, secondaries momentum isn't set to wane any time soon. "When a number that big needs to work its way through the system, it's going to take a significant amount of time," says Sanjeev Phakey, Partner and Head of Secondaries at Federated Hermes Private Equity.

Private Equity Wire's Q4 2024 GP Survey finds that 83% of GPs expect secondaries volumes will rise over the next 6-12 months – 17% of them say this increase will be significant.

This is despite the easing interest rate environment and hints of recovery in deal activity. Amyn Hassanally, Partner and Global Head of PE Secondaries at Pantheon, says: "Should M&A activity increase due to the reduction of interest rates, we believe there will still likely be a backlog of companies seeking to be sold, and similarly with companies that have been waiting to IPO – should the IPO window re-open for companies at scale.

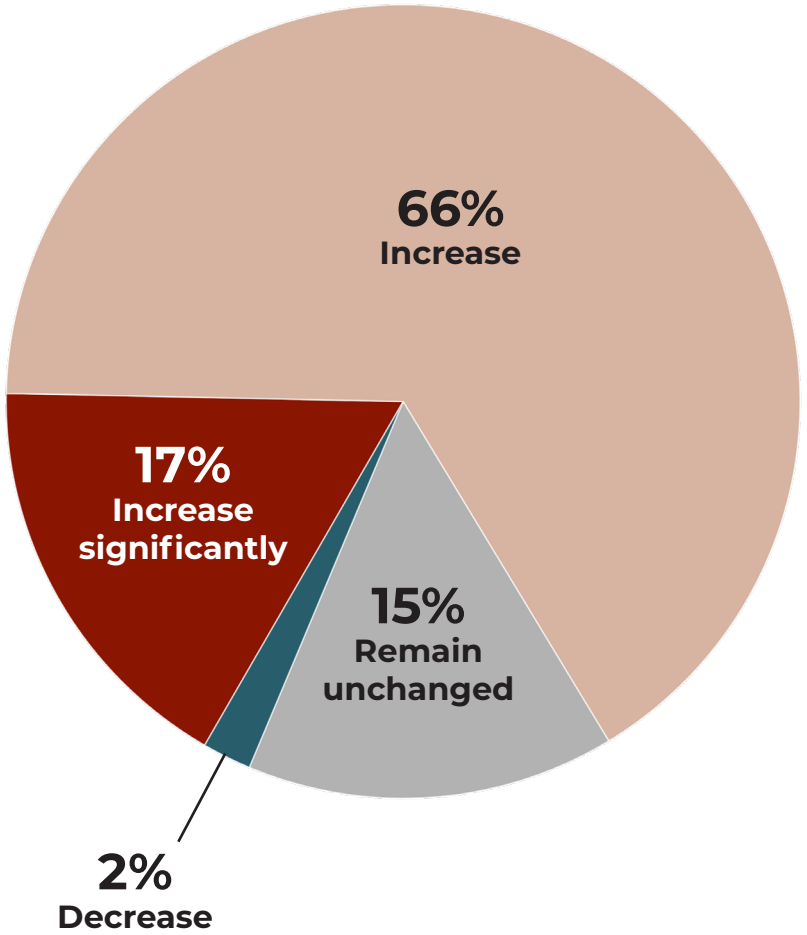
"This backlog would likely delay distributions back to LPs, making it improbable that we will see a return to the distribution levels of 2021 within the next year."

Interest rates remain, by some distance, the most significant macro-economic growth driver for secondaries, ranked at the top by 41% of managers. This is followed by concerns around a recession (16%), geopolitical escalations (15%) and inflation (15%). Hassanally says these factors will steer investors towards secondaries, “as they seek liquidity and risk mitigation”.

The pivotal US election seems to be less influential for the asset class, cited by only 9% of managers. Pinal Nicum, a Partner in Secondary Investments at Adams Street, says any influence is usually short term. “Seller psychology and sentiment are always an important part of the secondary investment landscape, and over the past three-to-six months, we noticed some behaviour in certain transactions that indicated sellers were expecting further volatility. From a US election perspective, this may abate somewhat now that there is clarity. We’re yet to see any material difference in pre- and post-election attitudes.”

He adds that macro volatility resulting from geopolitics, budgets and elections are constant considerations for sellers, as well as other factors. “A number of idiosyncratic factors could affect seller decisions outside of macro-economics: for example, liquidity needs, denominator effects and portfolio repositioning. All of these will continue to drive record secondary transaction volumes and excellent buying opportunities.”

How do you expect secondaries transaction volumes to evolve over the next 6-12 months?



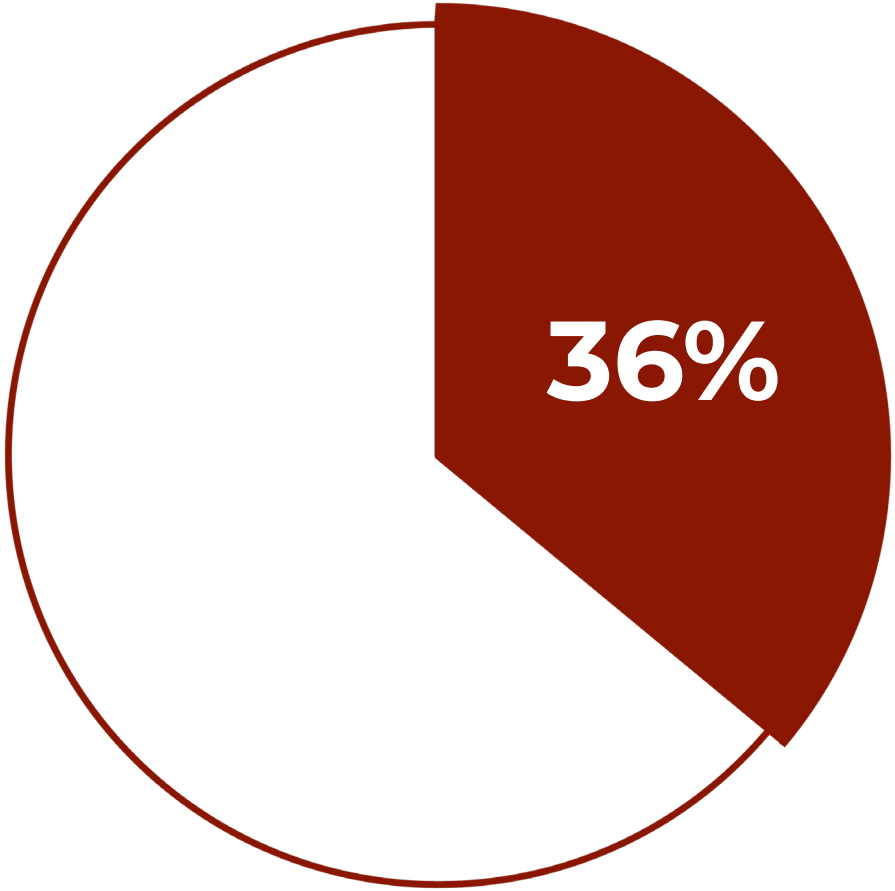
83% of GPs expect secondaries activity to increase over the next 6-12 months

Source: Private Equity Wire GP Survey Q4 2024

KEY FINDINGS

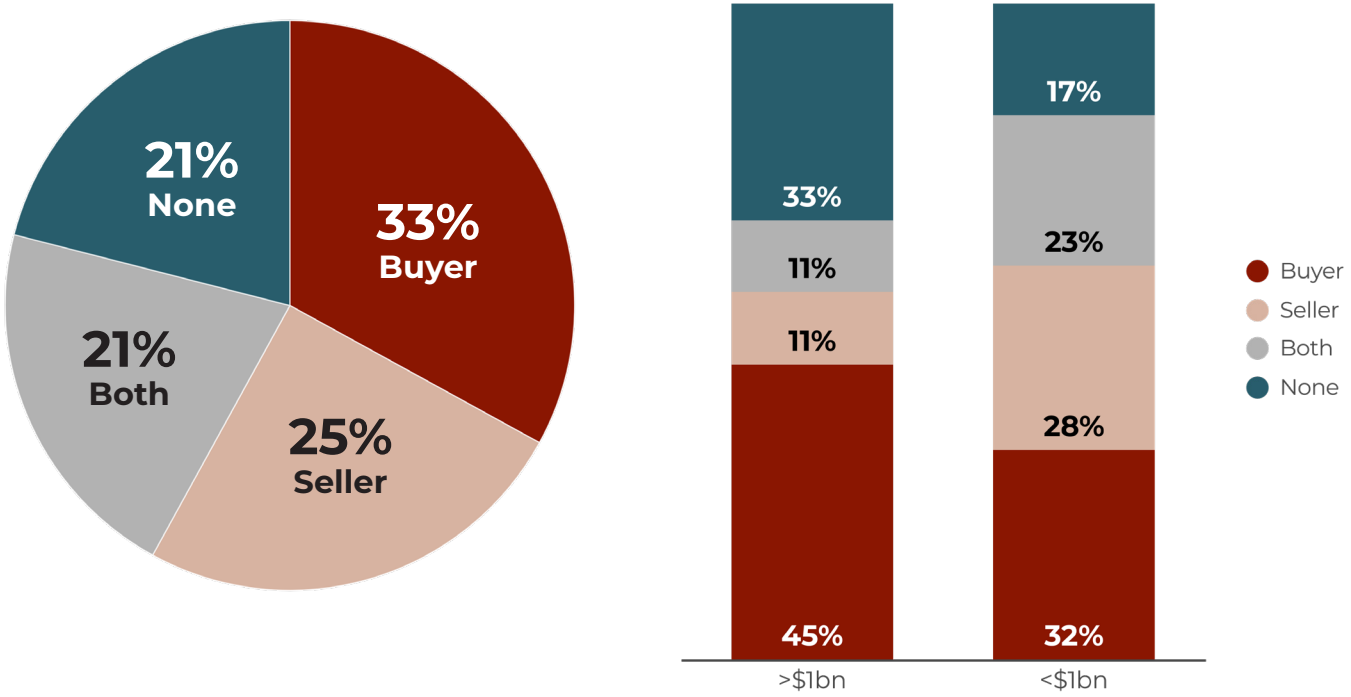
GP-led drive growth

Share of secondary transactions that were GP-led in the past 12 months:



INSIGHTS

What is your predominant role in the secondaries market?



Source: Private Equity Wire GP Survey Q4 2024

GIVE AND TAKE

An opportunistic asset class indeed, the secondary market is currently home to a diversity of players with a wide variety of motivations. A third of managers say they're predominantly buyers, while 25% classify themselves as sellers. More than a fifth (21%) say they are both, while 21% also say they play neither role in the market.

Among the firms primarily buying is AlpInvest. Jorn Krenn, a Principal in the firm's Secondary and Portfolio Finance team says this is where the biggest opportunity lies: "Despite record-level secondaries funds having been raised in recent years, there is a continued supply-demand imbalance in the secondary market. I believe this dynamic will continue for the foreseeable future."

Krenn adds there is flexibility in his firm's approach: "We do monitor the sell-side of the market and will selectively seek to sell funds subject to certain parameters."

There are undoubtedly opportunities on the sell side. A story of note from recent weeks is Patria Private Equity Trust's (PPET) sale of a 14-fund portfolio for a sum of £180m – at only a 5% discount to their March valuation.

“

…we’re now in the territory where sellers are holding out for deals that are priced at 90% of net asset value or higher

Patrick Knechtli
Head of Secondaries, Patria

Patria's Head of Secondaries, Patrick Knechtli, says: "As sentiment around valuations and exits has improved, secondary buyers are growing more confident about bidding on portfolios – we're now in the territory where sellers are holding out for deals that are priced at 90% of net asset value or higher. This trend in improved pricing will surely drive higher volumes."

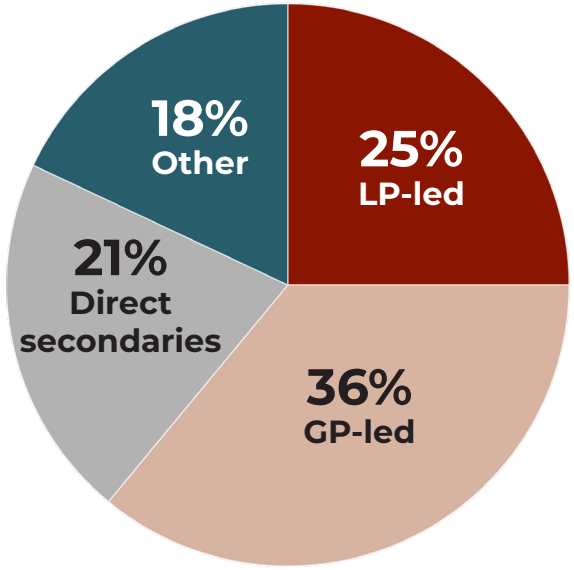
Hassanally reports that Pantheon plays both roles. "Current market conditions are favourable to both buyers and sellers, with pricing that reflects a balanced risk-reward scenario."

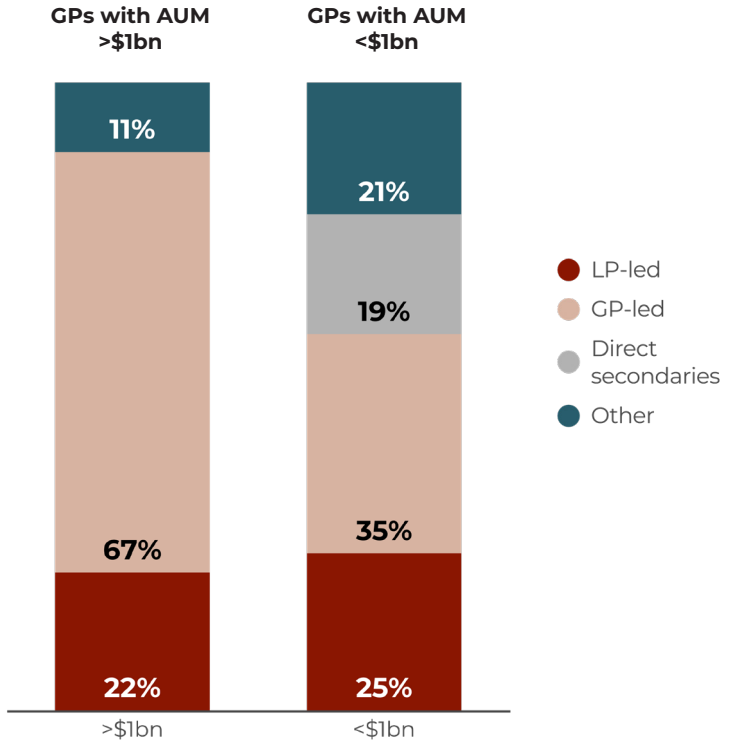
LED BY OPPORTUNITY

Much like buyers and sellers, both LPs and GPs have interest in a thriving secondary market. This is evident from the range of transaction types underway: 36% of respondents say the majority of their deals over the past six months have been GP-led, while 25% say LP-led and 21% say direct secondaries.

Knechtli says: "There is an element of pent-up supply of deal flow among large institutional investors that have found themselves overallocated to private markets as a result of their investment pacing during the lower-interest rate environment. A reduction in the gap between sellers' expectations and the price at which buyers are prepared to transact is now bringing these LPs to the table.

The majority of your secondaries transactions in the past 6-12 months have been?





Source: Private Equity Wire GP Survey Q4 2024

"The GP-led segment, meanwhile, is only at the start of its growth journey. GP-leds have existed for years, under various names and labels. A few years back, GP-leds developed as a means of restructuring funds that had underperformed – to give managers a second chance, more time and in some cases more capital. Now, continuation fund structures are being utilised for crown jewel assets that GPs want to retain and develop further. A wider understanding of how to manage the stakeholder advantages and challenges associated with these vehicles will only increase their penetration."

Sanjeev Phakey of Federated Hermes Private Equity has an identical assessment of the evolution of GP-leds, adding that education has been pivotal for higher transaction flows for both segments. He says: "There has been a mindset shift. Over the past year and more, big groups such as TPG and Astorg have raised GP-led only secondary funds, bringing momentum into the sub-segment.

"And equally, LP's looking to the secondary market now have a much clearer idea of what they're getting – a sort of PE index, with near-term cashflows and strong DPI. This is the polar opposite to GP-leds, which entail more concentrated risk with longer holding periods. Most LPs have grown in sophistication and clearly understand the risk-reward ratios of each proposition."

Other big managers concur with this market overview, each with their own blend of strategies. Krenn says, of AlpInvest: "In the LP-interest market we see increased demand for managed fund transactions and preferred equity solutions, as LPs are looking for ways to create liquidity while maintaining their GP-relationships. In the GP-centred market, we see continued adoption of single- and multi-asset continuation vehicle transactions by top-tier GPs. And finally, we see strong momentum in the portfolio finance side of PE secondaries across NAV lending and GP commitment financing."

Hani El Khoury, Partner at Coller Capital, adds: "Credit secondaries are also becoming increasingly prominent, and we're seeing larger transactions come to market, comparable to the size of the ones we see on the equity market. The bulk of the volume still comes from LP-leds; however, we're recently starting to see an increase of GP-led transactions too. The credit market holds a lot of potential for managers who are able to do both."

With more growth will come further diversification, and firms will need to equip themselves with the prowess and flexibility to capitalise on a fast-moving market. Learn how managers are thinking about the next phase of growth in section two.

> **Integrated global platforms with sizeable primary and co-investment programmes benefit from significant operational synergies**
>
> Jorn Krenn, Principal,
> Secondary and Portfolio Finance, AlpInvest

BUILDING BLOCKS

Managers are setting up their processes and operational infrastructure to match the speed and scale of secondaries growth.

The secondary market is complex. GP-led, LP-led, direct secondaries, credit secondaries and portfolio financing are just some examples of transaction types, each with its own risk profile. And the market is poised for a steeply upward trajectory: "To put things in context, the secondary market is still less than 2% of private assets AUM, so we believe there's significant room for growth in unlocking liquidity in this space," says Hani El Khoury of Coller Capital.

The question remains of whether managers are equipped to cope with the complexity that will come with growth at such a rapid scale. Asked about the biggest challenge facing the secondary market over the next 6-12 months, the biggest share (31%) said it was seller apprehension, which – as we've seen in section one – is abating in light of narrowing valuations and higher awareness. The second biggest challenge is a structural incapacity to scale up, cited by more than a fifth (21%) of managers, while an operational incapacity to scale up ranks third on the list.

<2%

of private assets
under management
are in the secondary market

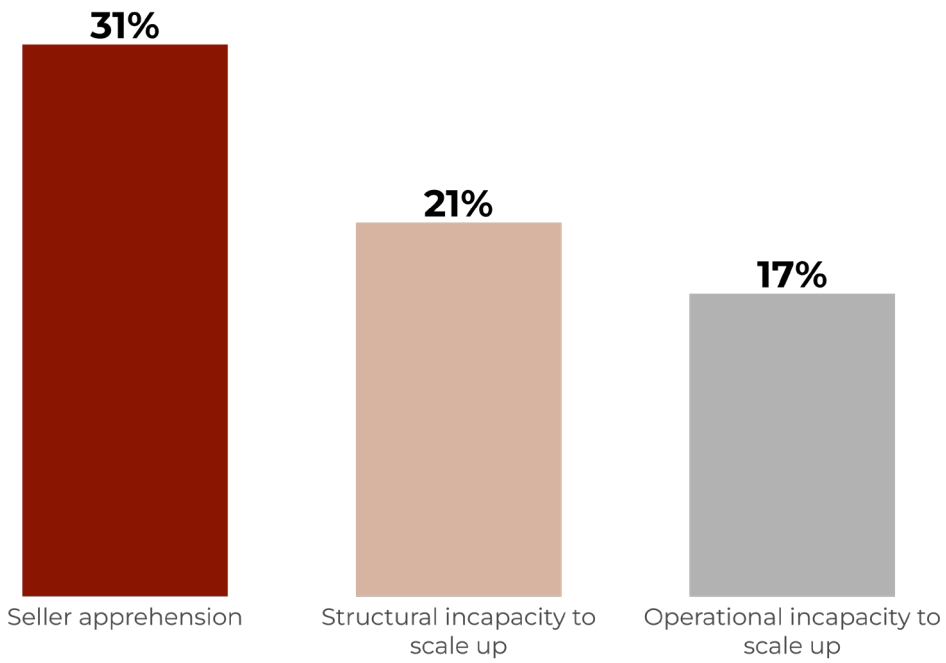
Hani El Khoury,
Partner, Coller Capital

“

A number of secondary buyers are exploring or implementing advanced data science tools and predictive analytics to augment their underwriting

Amyn Hassanally
Partner, Global Head of PE Secondaries, Pantheon

Top three challenges facing secondaries firms (next 6-12 months)



Source: Private Equity Wire GP Survey Q4 2024

Pinal Nicum of Adams Street says: "The relevance of portfolio and fund construction skills – to make sure funds have the right mix of characteristics across GP-led and LP-led transactions – is far higher today among secondary buyers than it was a decade ago."

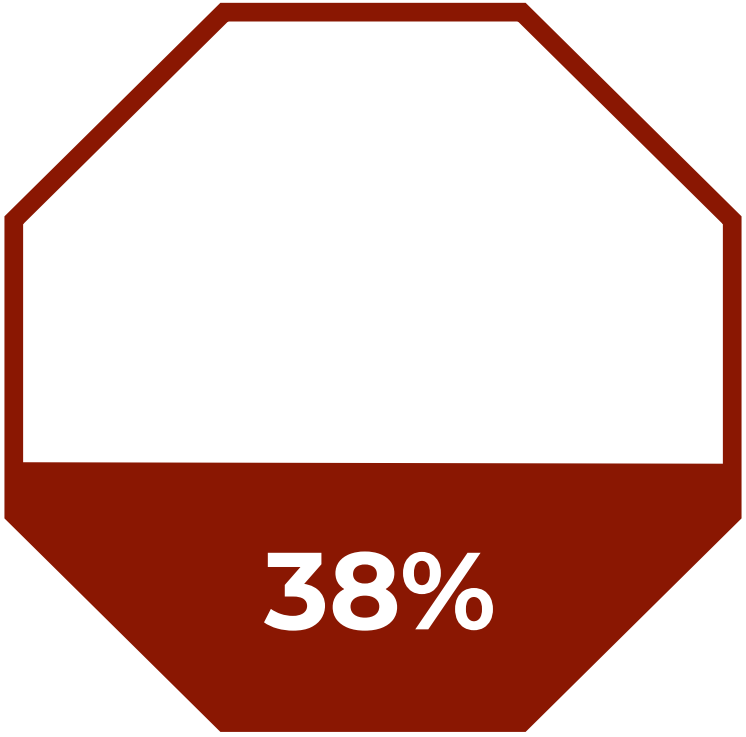
"The good news, from a buyer's perspective, is the deal pipeline is steady. The challenge is then twofold: one is getting access to the right situations, especially for us as we focus on the top-tier of PE managers. We're fortunate that we have a 50-year-old primary programme, which has given us deep relationships that can be leveraged to access the best deals. The second is to sift through a vast pool of deals and find the right fit, which requires robust due diligence processes, powered by high quality data and advanced analytical capabilities."

THE DATA PLAY

This is the next phase of growth for secondaries – to build out an operational and digital infrastructure that can facilitate higher volumes of faster and more accurate transactions. Portfolio management (18%), process efficiency (17%) and data ingestion/aggregation (17%) were cited as the three operational areas most in need of improvement to enable growth in secondary strategies.

Operations are the next phase of growth

Share of respondents that say structural and operational incapacity to scale up is their biggest challenge:





IAN KELLY

Managing Director and Head of Private Markets, EMEA & APAC

SETTING UP FOR SCALE

A scalable secondaries proposition requires a comprehensive data strategy to track performance and align with a diversity of operating models across organisations and regions, says Ian Kelly, Managing Director and Head of Private Markets, EMEA & APAC, at SS&C GlobeOp.

Secondaries transactions are not new phenomena and have been expanding in line with underlying growth in private markets, says Ian Kelly of SS&C Technologies. The ongoing liquidity crunch in PE has certainly brought momentum, and the sub-segment is now expanding – both in volume and complexity.

With this growth comes higher operational intensity. Kelly says: "In a competitive market, firms need access to a wider range of information on secondaries deals and performance. So far, this problem has been solved through recruitment, but firms increasingly recognize the need for a robust operational infrastructure."

Data spotlight

Particularly in LP-led deals, Kelly says, investors are buying multiple positions in a fund – each with its specific ownership structure, asset class and regional focus, among other variables – making for a great degree of transaction complexity.

Visibility is key, which puts the availability and management of data front and centre.

"More than ever, new entrants to the market recognise the value of data – from analysing and researching new investments to monitoring their underlying assets with a greater degree of granularity. These firms are setting up their data strategy from the get-go and are well positioned for the future compared to firms discovering this need five years in."

As our data shows, portfolio management (18%), process efficiency (17%) and data ingestion/aggregation (17%) are the three biggest areas of improvement for firms looking to scale up their secondaries strategy.

According to Kelly, every firm is different in its operational setup, and even if its model isn't the most efficient, it may be the most preferable based on its unique organisational culture. "Our job is to be consultative in our approach and find the right fit of solutions for each firm."

Internal and external challenges

Even with internal complexities ironed out, the secondaries space, by its very nature, brings another layer of challenges – when interacting with another platform. "Other firms may work with different providers, administrators, systems and technological prowess, which affects the point of data ingestion. If the platforms can't be integrated, at times it's a matter of scraping documents and records for data, which can be a significant drain on resources."

Regional differences

There are regional variations, too. Kelly highlights how secondaries have grown into a global phenomenon in tandem with private markets expansion. "International funds historically based in the Caymans, for instance, are now interested in the Middle East – as investors in the latter region are moving the markets with vast pools of capital.

"Each region will have its flavour of due diligence and portfolio monitoring, which creates the need for further alignment."

Operational demands will only intensify as the market expands, pushing more managers to consider a comprehensive, tech-driven data strategy. Looking to the future, Kelly highlights conversations around the potential tokenisation of secondary positions. At this point, the secondaries market may start to resemble the retail market in its operational complexity.

Amyn Hassanally of Pantheon says: “In the past year, we have seen 23 deals exceeding $1bn in transaction size, often involving highly diversified LP deals with an extensive number of line items. Analysing these deals purely on a bottom-up basis can be challenging for buyers, as there are only so many people in the industry with the relevant experience. As a result, we see data and technology playing a potentially crucial role in overcoming these challenges.

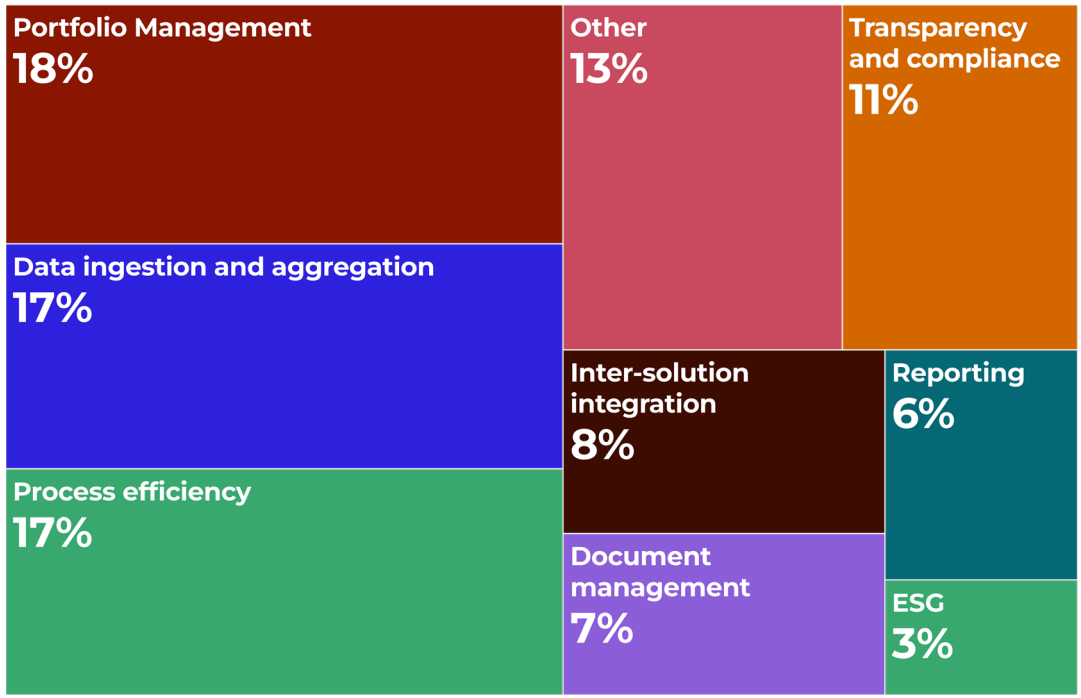
“A number of secondary buyers are exploring or implementing advanced data science tools and predictive analytics to augment their underwriting – to predict cash flows and outcomes of funds based on historical data, rather than relying purely on human capital.”

Khoury confirms that data science now plays an integral role in secondary investments at Coller. “Our data science team sits directly within the CIO Office and complements our investment teams’ bottom-up approach to fund analysis.

“We are able to incorporate over 30 years’ worth of our proprietary data into AI and machine learning tools that can help identify undervalued deals or assets which may outperform. We’ve used predictive models to gauge the expected performance of secondary assets while using management systems to track performance metrics and risk indicators across large and diverse portfolios.”

Most established managers seem to benefit from having an established primary programme, which provides a steady supply of performance data.

What area of your firm’s operations requires the most improvement for secondaries strategy growth?

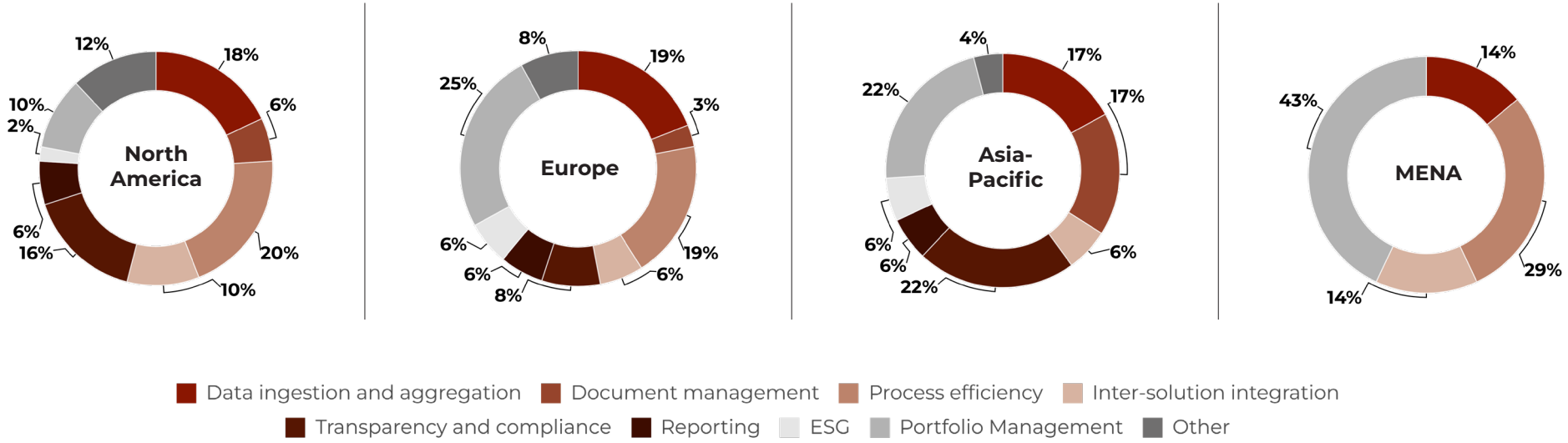


Portfolio management, process efficiency and data ingestion/aggregation are the most pertinent areas for operational improvements

Source: Private Equity Wire GP Survey Q4 2024

What area of your firm's operations requires the most improvement for secondaries strategy growth?

Operational priorities vary from one region to the next



Source: Private Equity Wire GP Survey Q4 2024

Top 3 areas for improvement

North America	Europe	Asia-Pacific	MENA
20% Process efficiency	**25%** Portfolio Management	**22%** Transparency and compliance	**43%** Portfolio Management
18% Data ingestion and aggregation	**19%** Process efficiency	**17%** Data ingestion and aggregation	**29%** Process efficiency
16% Transparency and compliance	**19%** Data ingestion and aggregation	**17%** Document management	**14%** Data ingestion and aggregation

According to Jorn Krenn of AlpInvest, this is a distinct competitive advantage. He says: ”Integrated global platforms with sizeable primary and co-investment programmes benefit from significant operational synergies, and typically also see a broader range of secondaries investment opportunities.

“Moreover, such platforms typically will have significantly more data from their underlying portfolio which I believe will increasingly become a differentiator as the industry further digitalises. We have seen several initiatives for fully automated LP portfolio pricing with various degrees of success, but as technology evolves, we expect that such pricing models will become increasingly accurate and will allow buyers to scale significantly. Investment decisions will ultimately still be made by humans – just much more efficiently.”

Sanjeev Phakey of Federated Hermes Private Equity highlights how the data-heavy nature of secondaries, where large amounts of information is processed in short timelines, means that AI will have a “huge role” to play going forward. “There is an element of feeding the machine over a period of time for it to learn, so the more transactions that are processed by AI – the better it will get. As it stands now, we’ve observed teams running their own analysis alongside the AI and comparing the results. As the two sets of answers increasingly converge, we’ll see trust building up in AI for wider use at scale.”

Firms that move to build out comprehensive data and AI strategies will win out as the secondary market expands (see Boxout, p15). But as global private markets start riding the wave, firms will not only have to integrate their internal operational infrastructure, but also account for operational structures of their providers or counterparties – which might differ from one region to the next.

Our survey reveals clear differences in operational priorities – with process efficiency being the biggest focus for improvement in North America, portfolio management in Europe and MENA, and transparency and compliance in APAC. Accounting for regional variations is crucial for firms.

Patrick Knechtli of Patria says: “Secondary transactions involve the acquisition of bespoke partnership structures – this involves the buyer and seller engaging not just with the GPs or managers of the funds, but with a range of third parties such as lawyers, tax advisers and other functional experts. The specific technical requirements vary regionally, too.”

He hints at a future where intermediaries play a minimal role, and secondary positions are processed through advanced technology such as blockchain, for instance. Conversations around tokenisation are indeed being floated in the market (see Boxout, p15). But for now, a comprehensive data strategy and a robust, scalable operational infrastructure are the key to scalability in the secondary market.



Making headlines

The secondary market has been a steady feature in the Private Equity Wire's news coverage in H2 2024, particularly for fundraising. Here are some of the top headlines:

- In June, Hamilton Lane closed its sixth secondaries fund with $5.6bn in commitments from corporate and public pension funds, Taft-Harley plans, sovereign wealth funds, endowments, foundations and private wealth platforms.
  Read more
- In July, Investec released its latest Secondaries Report, revealing that 98% of managers expect their next secondaries fund to be larger than their current vehicle, while three-quarters of managers expect to be more active in GP-led deals.
  Read more
- Also in July, Patria launched its inaugural secondaries fund following its acquisition of Abrdn's European PE business, with aims to raise $500m.
  Read more
- HarbourVest raised a record $18.5bn for its latest secondaries platforms in August – including $3.4bn dedicated to secondary co-investment opportunities.
  Read more
- September saw StepStone Group raise $7.5bn for its fifth PE secondaries fund – double the size of its predecessor.
  Read more
- In October, Coller Capital launched a new private credit secondaries fund, domiciled in Luxembourg and accessible to eligible private wealth investors outside of the US.
  Read more
- And in November, Capital Dynamics closed its latest global secondaries fund – oversubscribed with approximately $1.1bn in capital commitments.
  Read more

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