

# Are LP Secondary Transactions Racing to a Record Year?

by Cari Lodge

*In the 1<sup>st</sup> half of 2023, global secondary market volume was down 25 percent year-over-year (“YoY”), decreasing from \$57 billion to \$43 billion<sup>1</sup>. This was partially driven by the 24 percent YoY decline in LP-led secondary volume, decreasing from a record \$33 billion to \$25 billion<sup>1</sup>. Given this market backdrop, one might overlook the possibility that LP-led secondary volume in 2023 could be headed for a record year.*

---

<sup>1</sup> Jefferies 1H 2023 Global Secondary Market Review July 2023; Jefferies 1H 2022 Global Secondary Market Review July 2022



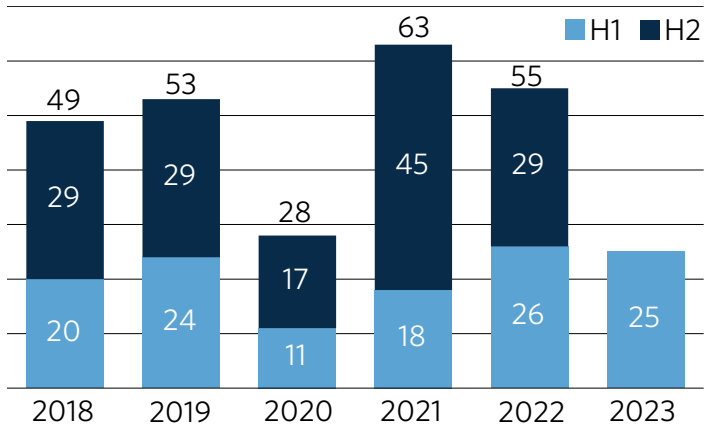
Four factors are likely to drive robust deal flow in the 2nd half of 2023: (1) Pricing has rebounded from the lows of 2022; (2) Distributions remain slow; (3) Limited partners remain focused on managing their portfolios and not missing manager re-ups or vintage years; and (4) Available secondary capital to LTM secondary volume remains steady at 2.3x with \$220 billion available to invest in secondaries<sup>1</sup>. In 2021, the last record year for LP-secondary transactions at \$64 billion, LP volume for the first half of the year was \$19 billion, while volume for the second half was \$45 billion<sup>2</sup>.

### MARKET VOLUME

The 1<sup>st</sup> half of 2023 proved to be a mixed bag for the secondary market, as global secondary volume of \$43 billion represented a 25 percent decline from the record setting \$57 billion of volume which transacted in the 1<sup>st</sup> half of 2022<sup>1</sup>. In the 1<sup>st</sup> half of 2023, LP-led secondary volume represented 58 percent of the market<sup>1</sup>, and the consensus amongst secondary advisors is that there are an influx of large LP portfolios expected to come to market or closing in the second half of 2023. This continued flow of LP secondaries may trump the volume seen in the 2<sup>nd</sup> half of 2022, signaling the continued proliferation of LP secondary volume.

### LP-LED TRANSACTION VOLUME

Numbers in billions



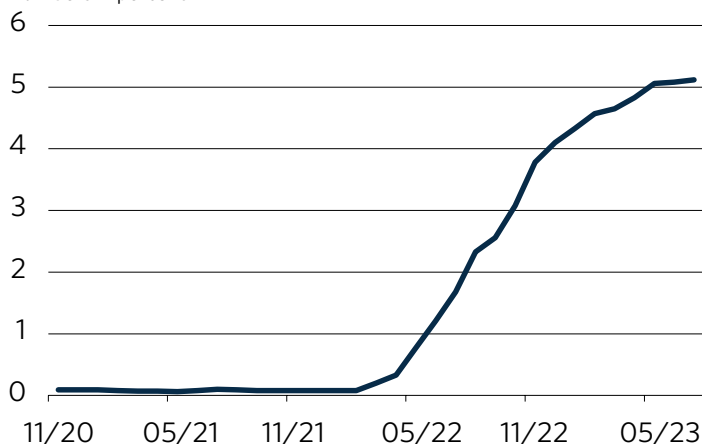
### LP-LED

As discussed in our 2<sup>nd</sup> half of 2022 article, LP-led secondary transactions are core to the secondary market. Limited partners want to manage their portfolios. Lessons learned from the global financial crisis suggest that one should not skip vintage years nor miss an opportunity to get into access-constrained managers, especially when investors are tighter with their primary dollars and may be reducing their commitment sizes. When distributions are slow and private equity returns have been outperforming the public markets, investors may find themselves fully allocated to private equity and seeking liquidity to make new investments.

With interest rates rising rapidly over the last year and a half, CIOs may look to change allocation targets across the portfolio and be more willing to hold fixed income investments<sup>3</sup>. In recent years, some investors have continued to increase their private equity targets in search of outsized returns.

### INTEREST RATES

Numbers in percent



1 Jefferies 1H 2023 Global Secondary Market Review July 2023; Jefferies 1H 2022 Global Secondary Market Review July 2022

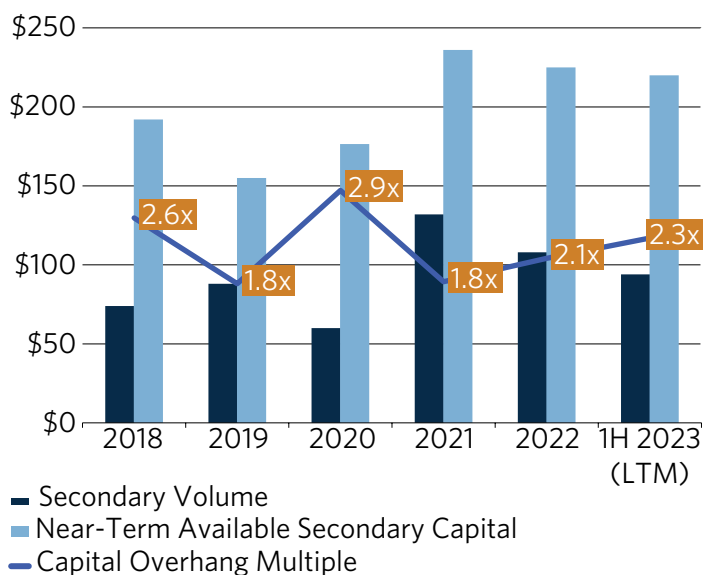
2 Jefferies 1H 2021 Global Secondary Market Review July 2021; Jefferies Global Secondary Market Review January 2022

3 "Federal Funds Effective Rate." FRED, 1 Aug. 2023, fred.stlouisfed.org/series/FEDFUNDS.

## SECONDARY CAPITAL AVAILABLE

While secondary volume for the 1<sup>st</sup> half of 2023 was down compared to the 1<sup>st</sup> half of 2022, the dedicated capital available to invest in the secondary market remained nearly unchanged, decreasing by a mere 2 percent<sup>1</sup>. As of the 1<sup>st</sup> half of 2023, there is approximately \$220 billion of available capital to invest in the secondary market from dedicated players, according to Jefferies<sup>1</sup>, which is in line with the volume potential from institutions seeking liquidity.

## SECONDARY CAPITAL & ACTIVITY



## LP SECONDARY MARKET

Limited partner secondary transactions could be poised for a record year in 2023. LP volume for the 1<sup>st</sup> half of 2023 was \$25 billion and accounted for 58 percent of total global secondary market volume in the 1<sup>st</sup> half of 2023<sup>1</sup>. While this is down from the 1<sup>st</sup> half of 2022, it represents a strong start to a year where aggregate volume is muted compared to the prior record year. The resiliency and resurgence seen in the public markets may have helped alleviate some of the denominator effect issues investors faced and brought forth more supply to the market. At the same time, the lack of distributions may have caused investors to seek liquidity in an effort to manage their portfolios. Investors don't want to miss opportunities to allocate to difficult to access managers nor do they want to skip out on vintage years. Investors continue to sell for non-economic reasons such as fund lives ending, overallocations and fatigue. As discussed in our 2<sup>nd</sup> half of 2022 article, LP-led secondaries are the core of the market and a critical tool for limited partners to actively manage their private equity portfolios.

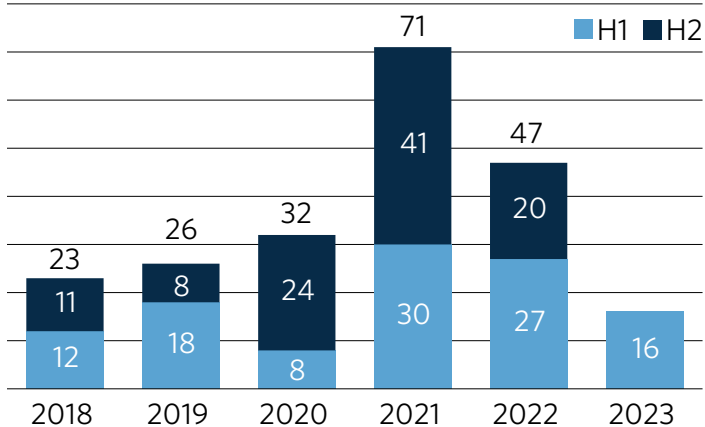
Limited partners are willing to sell a wider range of vintage years in today's market as they seek out specific headline pricing. Investors are expected to sell a record amount of limited partner secondaries in the 2<sup>nd</sup> half of 2023, based on consensus amongst secondary advisors, with one advisor seeing many similarities between the 2<sup>nd</sup> half of 2021 and the projected 2<sup>nd</sup> half of 2023. Following a depressed pricing environment in 2022, pricing has begun to increase in the 1<sup>st</sup> half of 2023 as the average price of LP transactions across all strategies was 84 percent of NAV, a 600-basis point increase from the 2<sup>nd</sup> half of 2022<sup>1</sup>. If the 2<sup>nd</sup> half of 2023 looks anything like the 2<sup>nd</sup> half of 2021, we are racing to a record LP market.

**GP-LED MARKET**

Serving as a complement to the LP-led market, the GP-led market will be a key component of the secondary market for many years to come. This segment of the market is largely replacing sponsor-to-sponsor transactions. It allows for GPs to hold on to their crown jewel assets or best companies, rather than sell them to a competitor. GP-led transaction volume was down in the 1<sup>st</sup> half of 2023, potentially because GP-led solutions are brought to the entire LP base and aren't initiated by the limited partners<sup>1</sup>. Limited partners in today's market may be more likely to prefer finding their own liquidity solutions proactively, rather than being reactive to liquidity solutions presented to them. GP-led transactions need to be highly compelling for both the buyer, the seller, and for a broad LP base, which could make it difficult to find the right price to transact.

**GP-LED TRANSACTION VOLUME**

Numbers in billions



**CONCLUSION**

Even though the 1<sup>st</sup> half of 2023 saw a more muted secondary market compared to the record volumes achieved in 2021 and 2022, LP-led transactions continue to dominate the current secondary market environment and look to potentially be heading for a record year. The secondary market remains small relative to the overall private capital market, and there remains ample opportunity for the secondary market to continue to grow.

This page intentionally left blank

## Important Notes

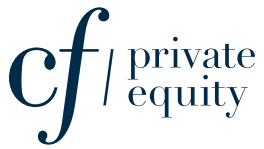
Certain information contained herein has been obtained from or is based on third-party sources and, although believed to be reliable, has not been independently verified. Such information is as of the date indicated, if indicated, may not be complete, is subject to change and has not necessarily been updated. No representation or warranty, express or implied, is or will be given by The Common Fund for Nonprofit Organizations, any of its affiliates or any of its or their affiliates, trustees, directors, officers, employees or advisers (collectively referred to herein as "Commonfund") or any other person as to the accuracy or completeness of the information in any third-party materials. Accordingly, Commonfund shall not be liable for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any statement in, or omission from, such third-party materials, and any such liability is expressly disclaimed.

All rights to the trademarks, copyrights, logos and other intellectual property listed herein belong to their respective owners and the use of such logos hereof does not imply an affiliation with, or endorsement by, the owners of such trademarks, copyrights, logos and other intellectual property.

To the extent views presented forecast market activity, they may be based on many factors in addition to those explicitly stated herein. Forecasts of experts inevitably differ. Views attributed to third-parties are presented to demonstrate the existence of points of view, not as a basis for recommendations or as investment advice. Market and investment views of third-parties presented herein do not necessarily reflect the views of Commonfund, any manager retained by Commonfund to manage any investments for Commonfund (each, a "Manager") or any fund managed by any Commonfund entity (each, a "Fund"). Accordingly, the views presented herein may not be relied upon as an indication of trading intent on behalf of Commonfund, any Manager or any Fund.

Statements concerning Commonfund's views of possible future outcomes in any investment asset class or market, or of possible future economic developments, are not intended, and should not be construed, as forecasts or predictions of the future investment performance of any Fund. Such statements are also not intended as recommendations by any Commonfund entity or any Commonfund employee to the recipient of the presentation. It is Commonfund's policy that investment recommendations to its clients must be based on the investment objectives and risk tolerances of each individual client. All market outlook and similar statements are based upon information reasonably available as of the date of this presentation (unless an earlier date is stated with regard to particular information), and reasonably believed to be accurate by Commonfund. Commonfund disclaims any responsibility to provide the recipient of this presentation with updated or corrected information or statements. Past performance is not indicative of future results. For more information, please refer to [Important Disclosures](#).

**Published September 2023**



A Commonfund Company

New York, NY 10017  
San Francisco, CA 94111  
London, United Kingdom  
Beijing, China

15 Old Danbury Road  
Wilton, CT 06897



Tel (646) 348-9201  
Tel (415) 433-8800  
Tel +44 (0) 20 8126 1628  
Tel +86 10 5737 2576

Tel 888-TCF-Main  
Tel (203) 563-5000

