

Blossoming New Era of Secondaries

by Lawrence Shoykhet



The Secondary market vaulted to a record year in 2024 and is poised for another record-breaking year in 2025. Secondary market growth is constrained by both a lack of investable and human capital. The rise of the '40 Act funds, the increase in GP-led funds, and the robust LP market are driving volume increases.

According to Evercore, there is approximately \$216 billion of dry powder among buyers and the expectation is that all of it will be used to fund deals in 2025.¹ The increasing size of the Secondary market provides Limited Partners (“LPs”) with optionality, allowing for better portfolio management and increased liquidity. With market demand as well as the sources of capital continuing to expand, the Secondary market is entering an exciting new era.

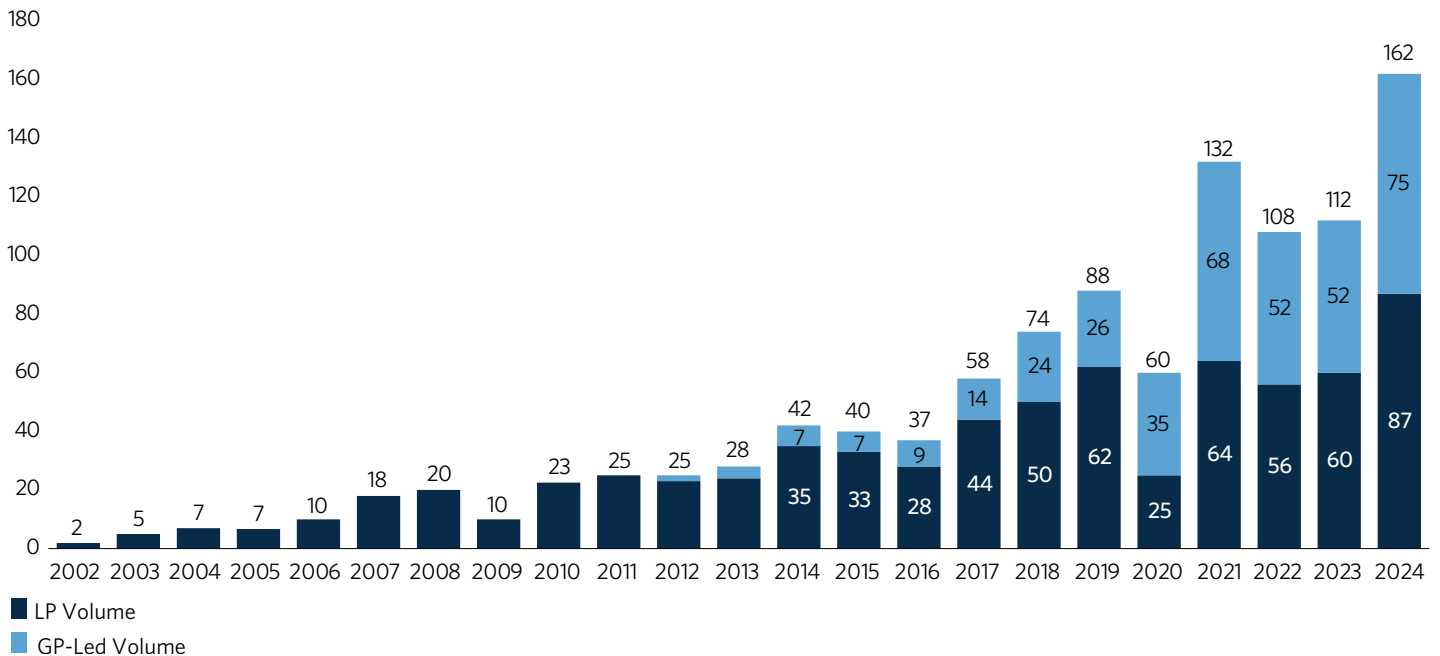
LP VOLUME

In the wake of a softened exit environment, the LP Secondary market recorded its largest year on record in 2024. In fact, the \$87 billion of LP volume in 2024 would represent

the 6th largest year on record for the entire Secondary market.² Of this transacted volume, ~40 percent of sellers were first time participants in the market, signaling the increasing significance of secondaries as a portfolio management tool.² Twenty-seven LP transactions greater than \$1 billion closed in 2024, a meaningful increase on the 19 such transactions that closed in 2023.² Moreover, average pricing has ticked up by 400bps from 85 percent of Net Asset Value (“NAV”) to 89 percent.² Despite this increase, pricing still remains below historical highs. The increased pricing has helped to bridge gaps between buyers and sellers. It is exciting that the LP market could surpass \$100 billion of volume in 2025.

SECONDARY TRANSACTION VOLUME

Numbers in billions



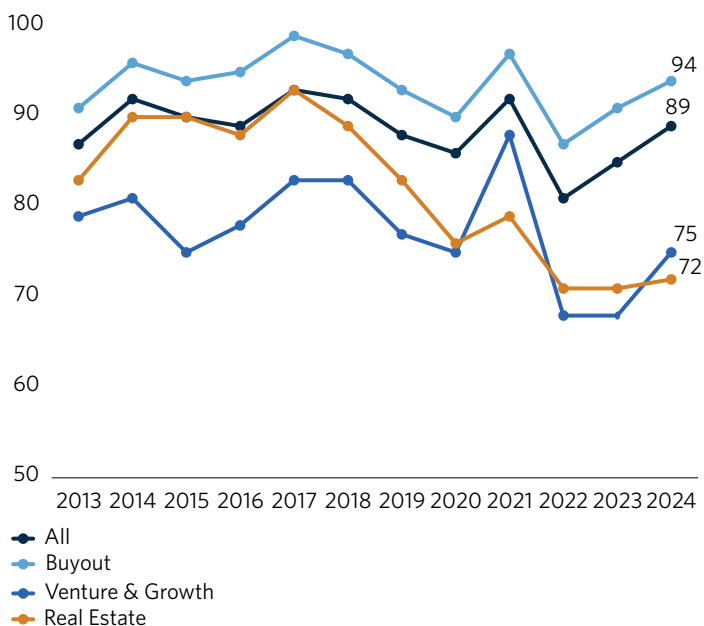
Source: Jefferies Private Capital Advisory, Global Secondary Market Review January 2025

PRICING

2024 pricing is still below peak levels seen in 2017 and 2021.² We believe NAVs in buyout funds are more fairly valued today. This should lead to more exits in 2025, as sponsors will be able to exit more of their investments at or above their holding values. The potential liquidity is much needed given that the exit backlog is the worst it has been since 2005.³

HISTORICAL SECONDARY PRICING (PERCENT OF NAV)

Numbers in percent

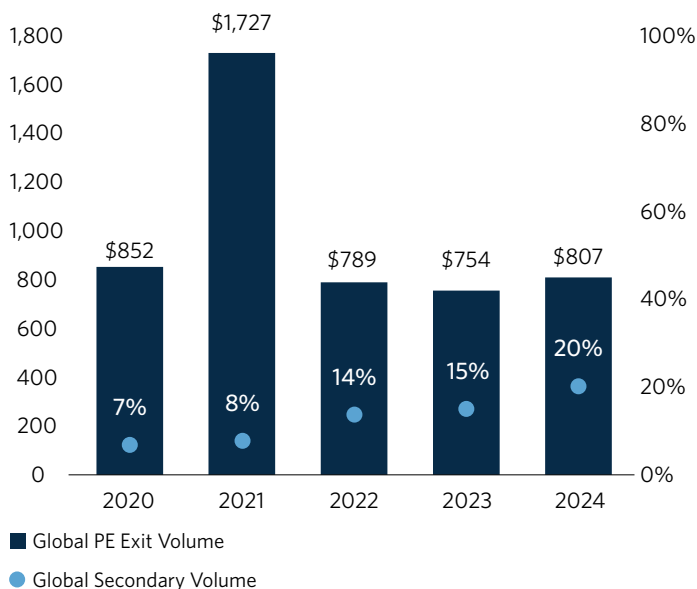


Source: Jefferies Private Capital Advisory, Global Secondary Market Review January 2025

EXIT ENVIRONMENT

Over the last couple years, the global private equity market has been plagued by a challenging M&A environment and a muted IPO market, resulting in slowed distribution activity when compared to the highs of 2020 and 2021.⁴ This has driven investors to proactively seek liquidity through secondary sales. In fact, looking at historical secondary volume as a percentage of global private equity exit activity shows that the Secondary market has been an increasingly important and central source of liquidity for investors. In 2024, secondary volume represented ~20 percent of total global PE exit activity.⁴ This is a staggering increase from the 10-year average of 10.4 percent and underscores the increasingly important role of secondaries in the broader private equity market.^{2,4}

SECONDARY VOLUME AS PERCENT OF PE EXITS



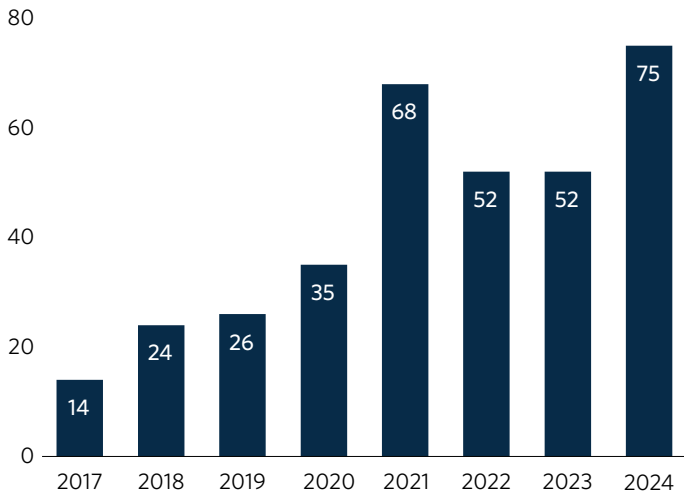
Source: Pitchbook, 2024 Annual Global PE First Look; Jefferies Private Capital Advisory, Global Secondary Market Review January 2025

GP VOLUME

Much like its core counterpart, the GP-led market has continuously grown and saw a record \$75 billion of transaction volume in 2024.² This represents a 44 percent increase from 2023 and a 10 percent increase over the previous record high in 2021.² As this market segment has continued to expand, it has seen many new market entrants including an increasing number of traditional buyout managers. This interest from traditional sponsors is unsurprising given that Continuation Vehicle (“CV”) exits accounted for ~13 percent of all sponsor-backed exit volume in 2024.² There are two segments to the CV market – single asset and multi-asset transactions. Single asset CVs have an investment profile more similar to co-investments. Multi-asset CVs more closely resemble traditional LP secondary transactions, where carry is cross collateralized. As this market grows, we believe more traditional LPs, co-investment funds, buyout funds and other investors will participate in the single asset CVs. These single asset transactions are very prolific today. The multi-asset transactions are more likely to be capitalized by secondary funds.

GP-LED TRANSACTION VOLUME

Numbers in billions



Source: Jefferies Private Capital Advisory, Global Secondary Market Review January 2025

'40 ACT FUNDS

The '40 Act funds have entered the Secondary market with a splash. Evercore reported that of the 28 LP transaction processes they advised on that had a '40 Act fund participating in 2024, 24 were won by the '40 Act fund at an average price of 5 percent above the rest of the bidder universe.¹ For there to truly be liquidity within '40 Act funds, the vehicles themselves need to be trading at or near par. As such, these investors will need to target assets which will offer more capital appreciation, such as younger vintage secondaries or even CV transactions, as opposed to back-filling vintages through tail-end secondaries at significant discounts. Traditional primaries in top-tier managers may be even more suitable.

CONCLUSION

While we believe that we are still years away from an efficient Secondary market brokered through an exchange, the continuously increasing volume and dedicated capital flowing into secondaries is allowing for better portfolio management and greater access to liquidity. Private Equity is no longer a buy and hold strategy. The LP market is poised for continued growth as a key source of liquidity for investors. The GP market offers an attractive opportunity set and alternative exit path for sponsors. The blossoming new era of secondaries is just beginning. Liquidity and returns are ever-present in the minds of fund managers and investors, and they need to focus on all three metrics: ROI, IRR and DPI.

Endnotes

- 1 Evercore Private Capital Advisory, FY 2024 Secondary Market Review - Highlights
- 2 Jefferies Private Capital Advisory, Global Secondary Market Review January 2025
- 3 McKinsey & Company, Global Private Markets Report 2025: Private equity emerging from the fog
- 4 Pitchbook, 2024 Annual Global PE First Look



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Important Notes

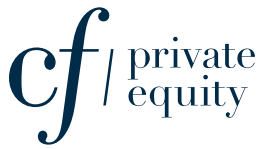
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