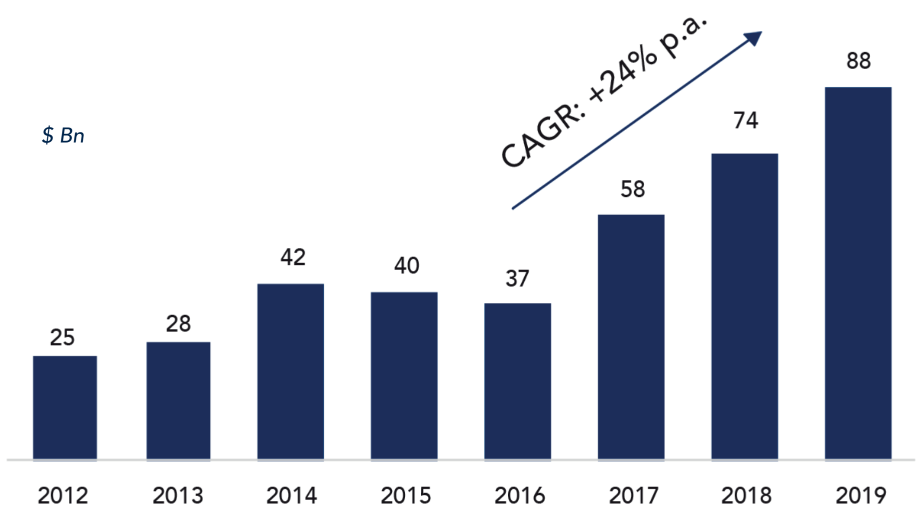
# What are the impacts of COVID-19 on secondary markets?

## *1. Secondaries: a booming market*

The global secondary market is almost five times the size it was back in 2008, when the global financial crisis was starting to ramp-up. The increase in the number of funds dedicated to secondary investments goes hand in hand with sustainable growth in transaction volumes. Today, this market plays a crucial role in the world of global private markets, enabling LPs to pro-actively manage their liquidity and rebalance their portfolios.

**Evolution of transaction volume in the secondary market**

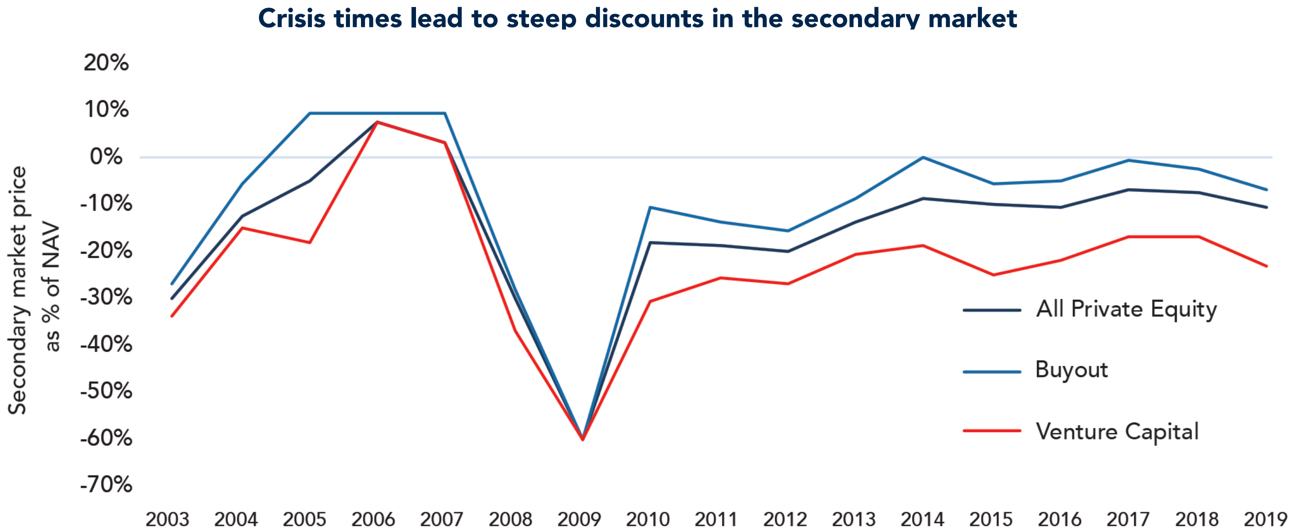



As LP-stake transactions are increasingly complex – portfolios often contain a large number of geographically dispersed managers – they are in most cases intermediated. The advisor assists the client through the major stages of the transaction, starting with the definition of the transaction' scope up to the transfer of assets. During the preliminary phase, it prepares the marketing documentation and leverages its network of secondary asset buyers to market the portfolio. At the end of the bidding process, the advisor coordinates the legal procedures including the drafting of the SPA and of the GP notification process following each fund's bylaws thoroughly.

As a reminder, anticipation, transparency and communication are crucial to the success of a secondary sale. It is important to have a well-defined roadmap which takes into account all specificities of the portfolio. The seller must be aware of the delays and special transfer conditions of each fund. Some funds may have pre-emption clauses stipulating that interest must be offered for sale first to existing LPs then to third parties. To ensure the proper execution of transactions, GPs are informed of the contemplated sale at the outset of any process. An intermediary can limit operational pressure on the seller and guarantee a competitive auction process with the best possible pricing outcomes. Furthermore, the seasoned advisor helps to bridge the gap between the expectations of sellers and buyers through transaction structuring techniques such as differed payment or value sharing.

## 2. What are the Impacts of COVID-19 on Private Equity Secondary markets?

A central question is currently drawing secondary market players' attention: how might COVID-19 affect secondary market activity ? The swift onset of the COVID-19 crisis has diverted GPs and LPs' focus away from new deal activity to the estimation of pandemic impact on their portfolios. Many transactions have been put on hold due to uncertainty relating to the value of underlying assets. In the meantime, some buyers have attempted to reduce purchase prices or to withdraw completely from signed transactions.




Publication of 2020 first and second quarter valuations gives a first overview of asset performance. Investors are exploring new opportunities in the hope of obtaining high quality assets at attractive valuations. Nevertheless, sellers' price expectations are not significantly lower than before the crisis. Due to a large bid-ask spread in the first and second quarter, transaction activity had difficulty taking off. Activity has recovered to some extent based on the valuations of June 2020 due to a better convergence between the sellers' expectations and the prices offered by buyers. The first post-crisis transactions were those involving the sale of recent funds with little or no capital deployed, as the question of asset valuation arises to a lesser extent. Deal flow is now starting to pick up again, mainly due to the significant backlog of deals accumulated during Q2 and Q3.

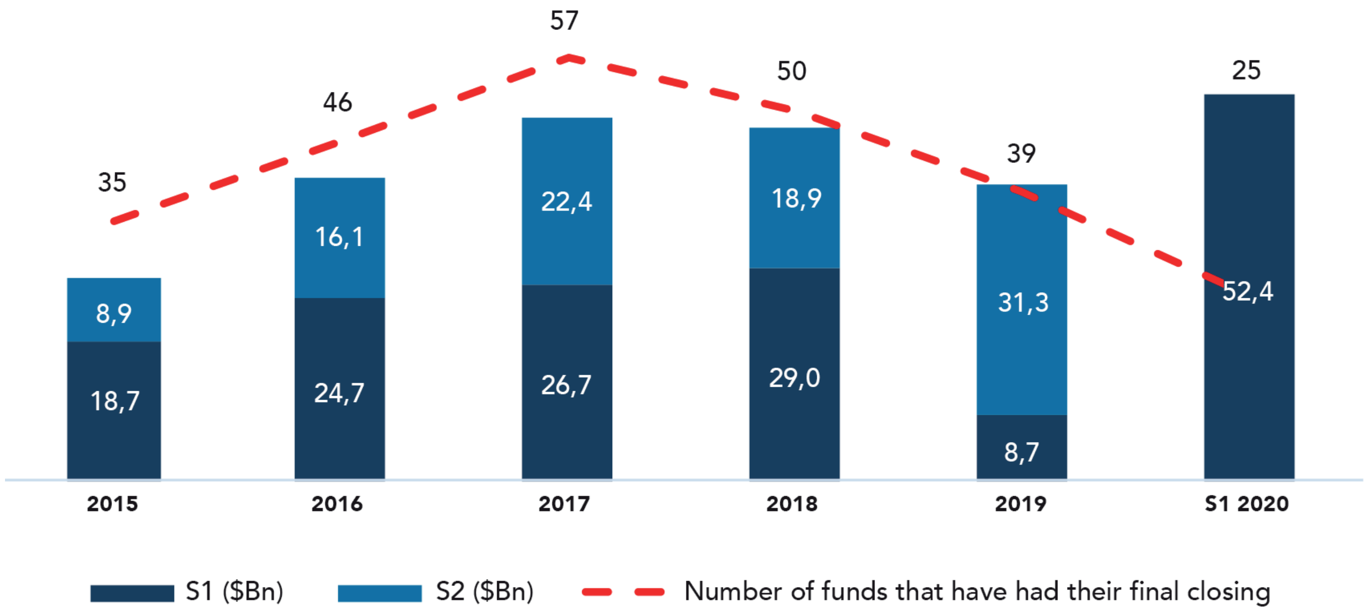
In the face of economic uncertainty, secondary market prices have declined from late 2019 year-end reference dates. Q1 2020 NAVs were down 10 to 15 percent on average compared to the previous quarter. Q2 NAVs were less affected than expected, with numerous managers even taking over some of the discounts from the previous quarter. Prices on the secondary market are following the same dynamic. Prices for Venture Capital funds are the least impacted as the asset class is on average less subject to the effects of COVID-19.

Given the current economic environment, greater attention is being diverted to fundamental analysis of underlying companies rather than using the method of merely factoring potential upside in the future. Secondary price levels for the rest of the year will depend on the pace of economic recovery and the extent to which GPs revalue their portfolios at upcoming reference dates, Q4 2020 in particular.

## 3. Secondary funds still very active in fund raising

Although trading activity is not expected to return to historical highs in the short-term, outlooks remain promising. Secondaries fundraising has been very successful in 2020 with € 52 billion raised in the first half of the year. This is a record figure, exceeding amounts ever recorded over a full year. Mega funds have contributed to this exceptional year, notably Ardian, which raised $19 billion, having largely exceeded its target of $12 billion. With other mega secondary funds currently on the market and not yet having reached a final closing, the second half of 2020 has the potential to match the figures of the first half. This would make 2020 the most successful year ever for secondary fundraising. Market outlook is therefore favourable and significant amounts of dry powder will be deployed over the next few months. This capital raised is increasingly concentrated in the hands of the largest managers.

**Secondaries capital raised between 2015 and S1 2020**




## *4. A recovery of transaction activity in a still very fragile atmosphere*

The impact of the health crisis on transaction volumes in the secondary sector is severe. Many buyers simply put their investment programs on hold during the second quarter of 2020 before slowly returning to the market from June 2020 onwards. We are seeing a resumption of discussions with buyers, who after 6 months of under activity, are beginning to feel the pressure of deployment. At the same time, sellers who had delayed their sales processes are now re-launching them. Plus, we notice a catch-up effect since the beginning of September with many opportunities now arriving on the market.

The recovery is real but remains fragile, we note a market polarization with many buyers looking for quality assets and quickly dropping more complex opportunities. In this turbulent context, Jasmin Capital continues to bring all its expertise to its clients to successfully complete their disposal projects.