



ANNUAL MARKET SURVEY - SECONDARIES

2023



JASMIN CAPITAL AT A GLANCE



OUR CORE ACTIVITIES

Since 2011, Jasmin Capital provides Fund Placement, Secondary Transaction and Strategic Advisory services for General Partners (GPs) and Limited Partners (LPs)

FUND PLACEMENT

- ✿ Assists Private Equity, Infrastructure and Private Debt GPs in their fundraising process
- ✿ Co-investment syndication

SECONDARY TRANSACTION ADVISORY

- ✿ Advises on GP-led / Continuation funds
- ✿ Advises on LP stakes transactions

STRATEGIC ADVISORY

- ✿ GPs M&A
- ✿ GPs marketing study
- ✿ Advisory services for Family Offices and Institutional Investors

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| SCOPE OF THE SURVEY

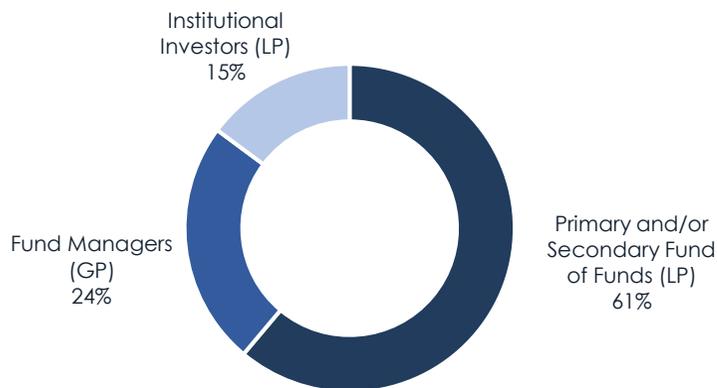


RESPONDENT PROFILE: A GLOBAL REACH ON THE SECONDARY MARKET

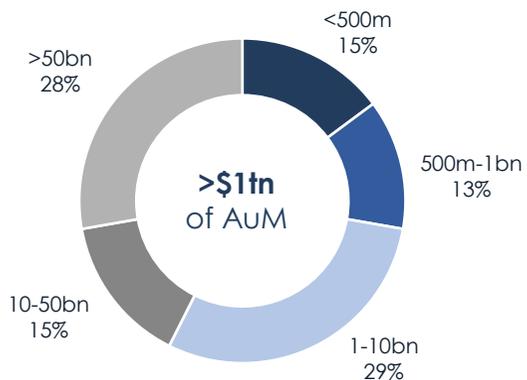
Jasmin Capital has developed a wide network of private market professionals of all sizes, geographies and activities, allowing to survey relevant institutions for its annual report

Respondent profile of our survey

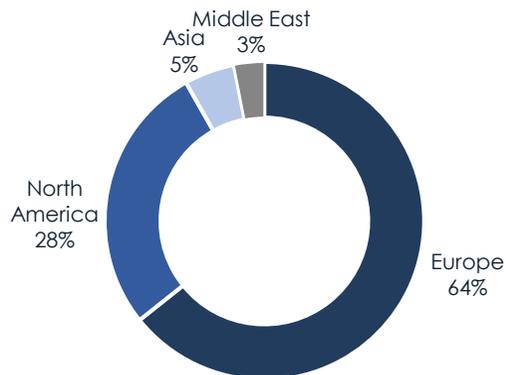
Respondent profile per investor category



Respondents Assets under Management (in USD)



Respondents Headquarters location



Respondent pool characteristics

Representative

May-June 2023

date of the survey



>100 respondents

4 continents

Relevant



>\$1tn respondent cumulative AuM

\$50m to \$150bn+ AuM

respondent AuM range

Exhaustive

Almost all of FoF/Secondaries funds

Large to small Institutional LPs

GPs of all strategies



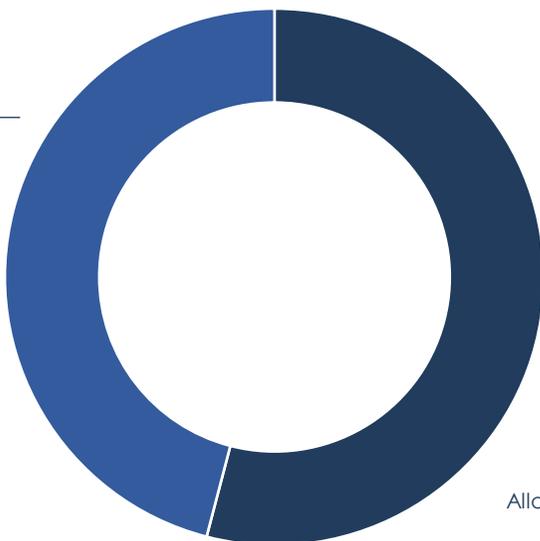
SECONDARY BUYER'S ALLOCATION BETWEEN GP-LED AND LP-STAKES INVESTMENTS

Throughout this report, we analyse the answers of our respondents by splitting the market in two parts: GP-led and LP-led transactions. Based on our survey, the secondary market becomes balanced with an almost equal allocation between the two transaction types

Average allocation of secondary investors in 2023

Allocation to GP-led
46%

- Single Asset CV⁽¹⁾
- Multi Asset CV⁽¹⁾
- Tender Offer
- NAV Financing⁽²⁾
- Preferred Equity



Allocation to LP-led
54%

- Fund Stakes Sales



Diversified typology of players

- **Myriad of actors** from generalist to specialized investors
- **>80 secondary investors** from \$50m to >\$200bn of AuM
- **Investment strategy** from FoF (primary and secondary) to direct secondaries



Highly concentrated market

- **Top 4** representing 40% of the market
- **Top 10** representing 65% of the market
- **Growing number** of new entrants in the secondary market



Sophisticated and Specialized players

- Tail end
- Distressed
- Stakes of Funds of Funds
- Small Size Portfolios
- Regional

(1): CV: Continuation Vehicle

(2): NAV Financing: Debt financing with the amount borrowed calculated as a percentage of the fund NAV

Source: Jasmin Capital Annual Market Survey

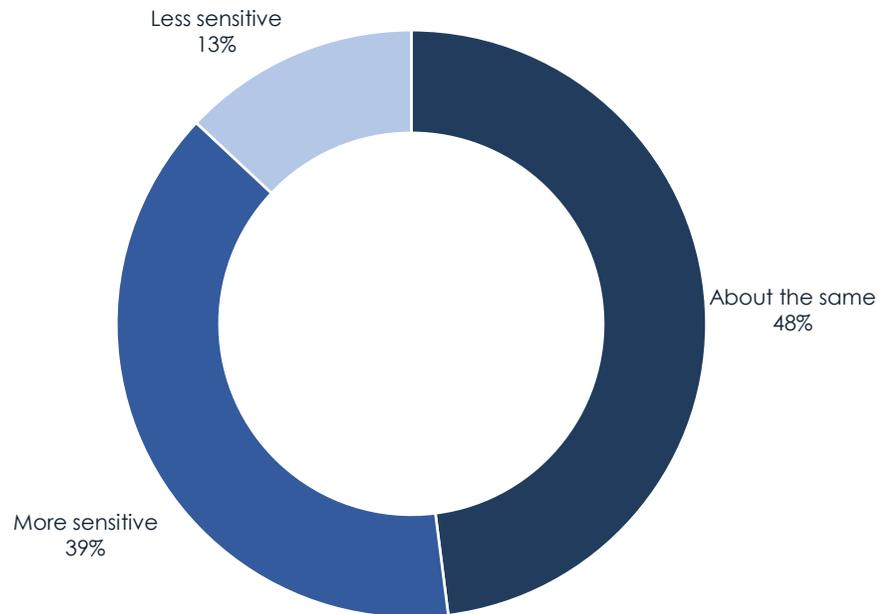
|| LP-LED SECONDARIES



LP-LED TRANSACTION VOLUME IS EXPECTED TO RISE IN 2023 vs. 2022

In an environment marked by a slowdown of the M&A market, capital constraints, and lower DPI numbers, a growing share of respondents indicate being interested in using the secondary market

LPs sensitivity and awareness about the secondary market in 2023 vs. 2022



Interest in the secondary market is growing, with c. 90% of respondents declaring a similar or higher likelihood of turning to the secondary market. Moreover, 39% have declared a growing interest in the strategy



The secondary market is a **route for LPs to find liquidity**. It offers a way to mitigate the denominator effect and a possibility to navigate the current market conditions



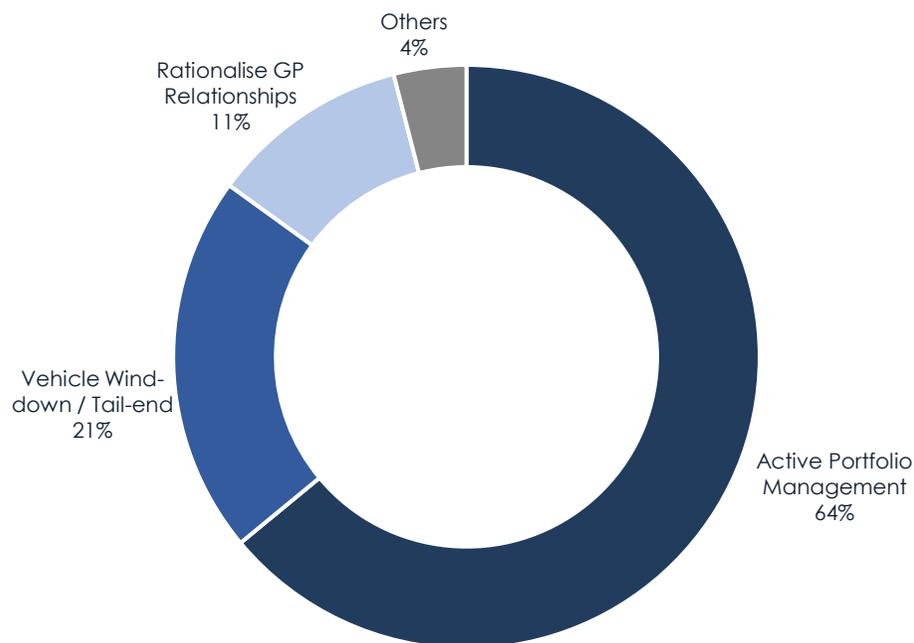
In 2023/24 we anticipate **more LP-led transactions** to go to market following a period of long decision-making process

Source: Jasmin Capital Annual Market Survey

ACTIVE PORTFOLIO MANAGEMENT IS THE MAIN DRIVER OF LP-LED TRANSACTIONS

Almost two thirds of respondents have highlighted active portfolio management as their main reason to use the LP-Led market. For 21% of other LPs and especially Funds of Funds, vehicle wind-down and tail-end sales are an important reason to turn to the secondary market

Main drivers of LPs selling on the secondary market



64% of respondents named active portfolio management as the main reason to pursue LP-led processes.



Active portfolio management offers a way to mitigate the denominator effect following interest rates hikes, rebalance a portfolio based on a new strategy, or start asset rotation (using proceeds of a sale to fund new commitments)



Tail-end strategies are mostly relevant to Fund of Funds looking to wind down old vehicles, and account for 21% of respondents



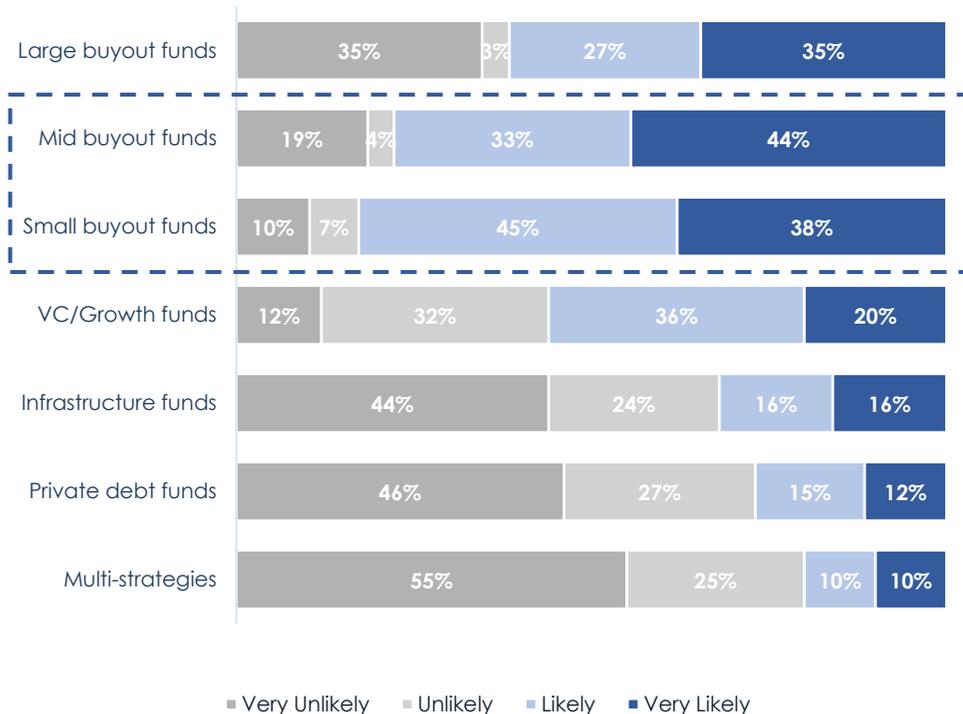
Rationalising GP relationships is a way for LPs to focus on key GPs and is often an opportunity to make their investment strategy evolve to more relevant strategies

Source: Jasmin Capital Annual Market Survey

BUYOUT REMAINS THE MOST PREFERRED ASSET CLASS FOR SECONDARY BUYERS

Buyers declared that they were more interested in buying Private Equity fund stakes, and especially from the buyout strategies. Venture fund stakes suffer from market dislocation, while Infrastructure and Private Debt from a specialized audience

Secondary buyers' interest in each asset class



Buyout fund stakes remain the most sought by secondary buyers as their valuations are more stable amidst a global wave of valuation downgrades. On average, 74% of respondents declared either an "interest" or a "strong interest" in buyout strategies



Small and mid market funds are the strategies in highest demand, with around 80% of respondents declaring their interest for these market sizes



Some players still display **interests for VC and Growth asset classes** despite uncertainty on valuation making it difficult to assess the asset quality, but a sizeable part of the market has stopped buying these fund stakes

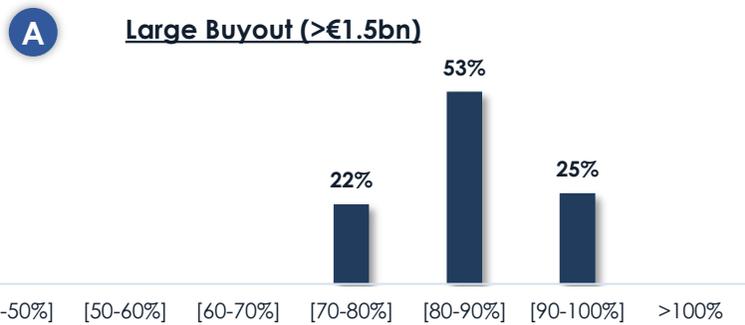


Private Debt and Infrastructure benefit from their resilience but are often too specialised to be attractive to a wider audience

Source: Jasmin Capital Annual Market Survey

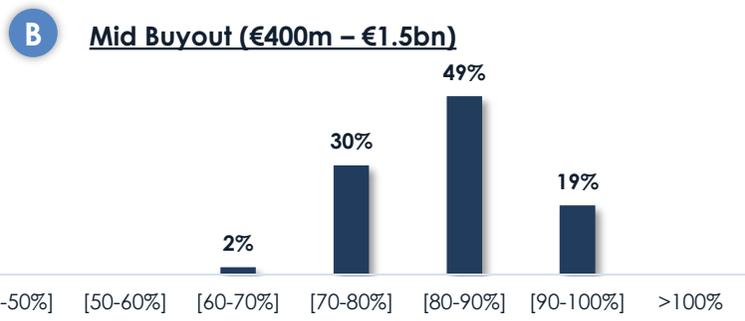
PRICING EXPECTATIONS FOR SECONDARY BUYERS: BUYOUT STRATEGIES (1/2)

More than half of surveyed respondents indicated investing in large buyouts with discounts inferior to 20%. Mid Buyout follows a similar trend, while Small buyout sees higher discount, with half of the respondents indicating discounts higher than 20%



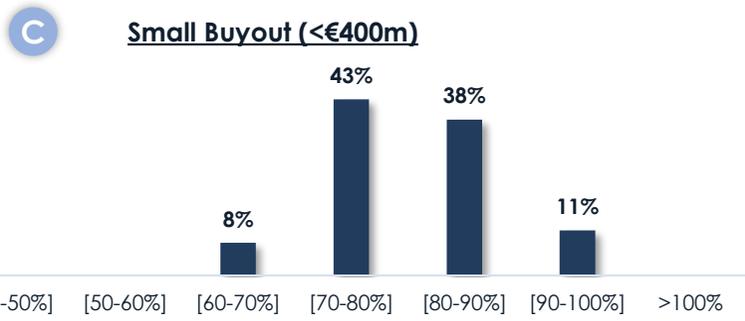
A

More than 75% of LPs invest in **large buyout secondary** market with a **discount inferior to 20%** on the back of asset maturity, quality, financial trajectory visibility and asset valuation certainty



B

Mid buyout secondary market follows similar trend than large buyout market except that a higher proportion of secondary investors report a discount between 20% and 30%. This could be due to the fact that information is slightly less available for secondary investors about these funds.



C

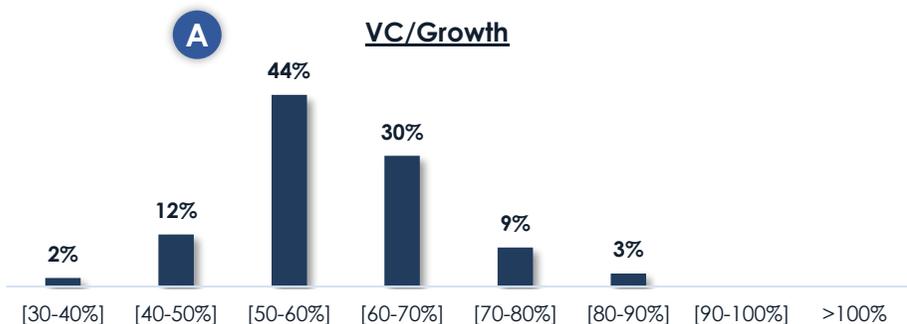
We observe a **shift in the investor's perception of the small buyout secondary market**. About 50% of LPs require a discount higher than 20% due to lower level of fund information generally available, and lack of existing relationships with or knowledge of the GPs

The most attractive pricing range, with discounts below 10% applies to **mature, high quality funds** with considerable **value creation potential**, managed by high quality **Tier 1 GPs**

Source: Jasmin Capital Annual Market Survey

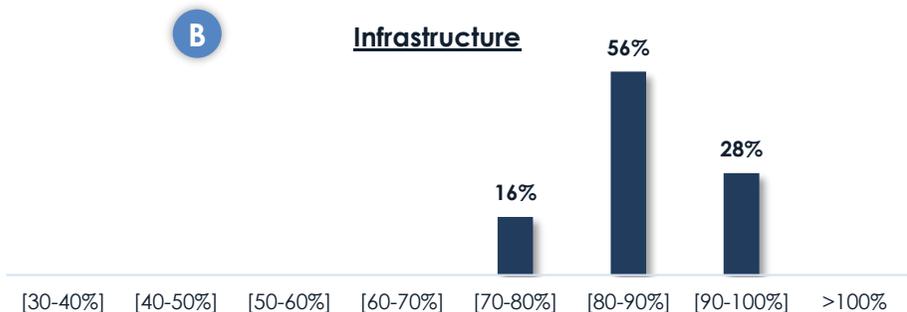
PRICING EXPECTATIONS FOR SECONDARY BUYERS: OTHER STRATEGIES (2/2)

Compared to Buyout, VC and Growth pricing expectations are more dislocated and harder to price. Uncertainties on asset valuation and undetermined fundraising horizon have led to higher discounts. Infrastructure and Private debt markets remain resilient despite having taken a hit with interest rates hikes in the past year and a half



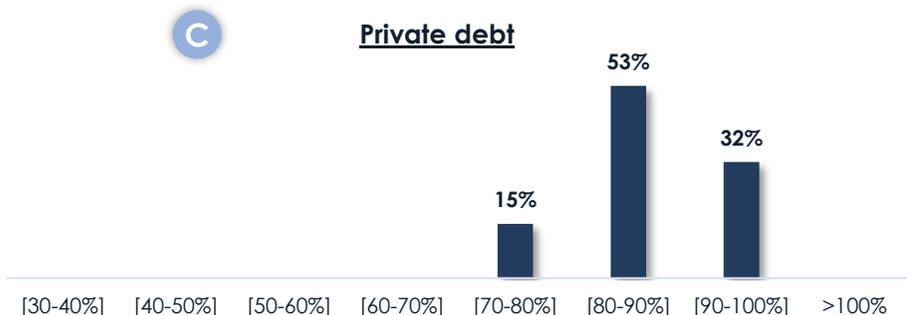
A

About **75%** of LPs would invest in **VC / Growth fund stakes** with a **discount between 50-70%** on the back of high uncertainties about asset valuation. The high dispersion of buyers' answers highlights the complexity to accurately value this asset class



B

More than **80%** of secondary buyers would price **Infrastructure** funds at a **discount lower than 20%** as this asset class showed **high resilience** and **valuation certainty** due to predictability of cash flows over the long term



C

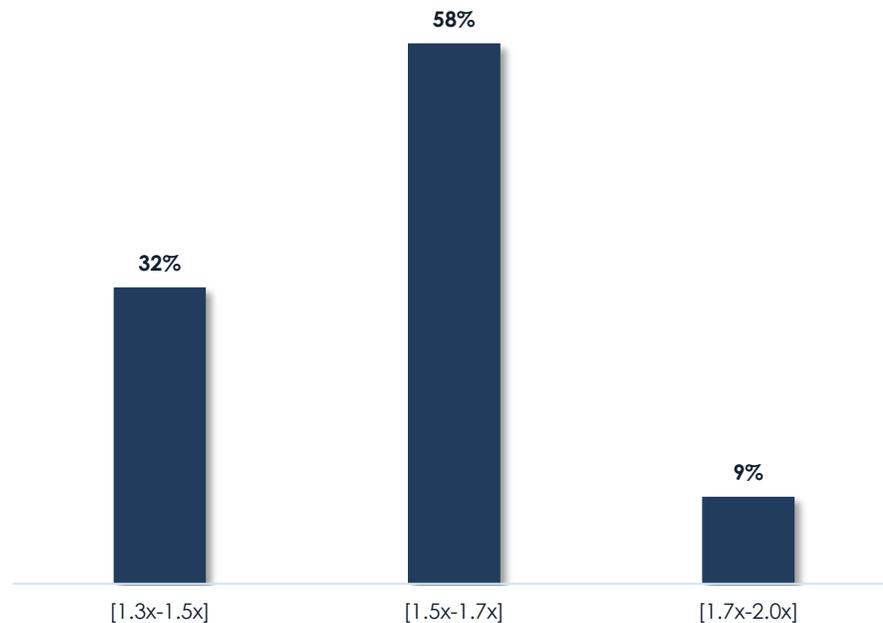
Strong buyer appetite for Private debt during the economic downturn translates into **low discount** for this asset class. Large generalists' buyers and specialised private debt players price this class at low-double digit discount

Source: Jasmin Capital Annual Market Survey

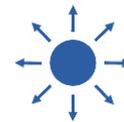
EXPECTED RETURN ON A DIVERSIFIED LP-LED PORTFOLIO

Expected returns for LP-led transactions for a diversified portfolio are becoming increasingly concentrated. Almost 70% of buyers expect a return above 1.5x, with 9% expecting returns between 1.7x and 2.0x

Secondary investors expected return for a diversified portfolio



The market is concentrated with almost 2/3 of investors expecting a return between 1.5x and 1.7x for a diversified portfolio before leverage



Diversification remains key for investors in a LP-led transaction as it provides risk mitigation and exposure to several asset classes, regional exposures, and asset strategy. A diversified fund stakes portfolio is the optimal way to be exposed to a variety of returns and opportunities



Secondary investors look to commit to a diversified fund stakes portfolio just at the right time to **optimise DPI and mitigate the J-Curve**, offering attractive returns without the downside of being invested too early

Source: Jasmin Capital Annual Market Survey

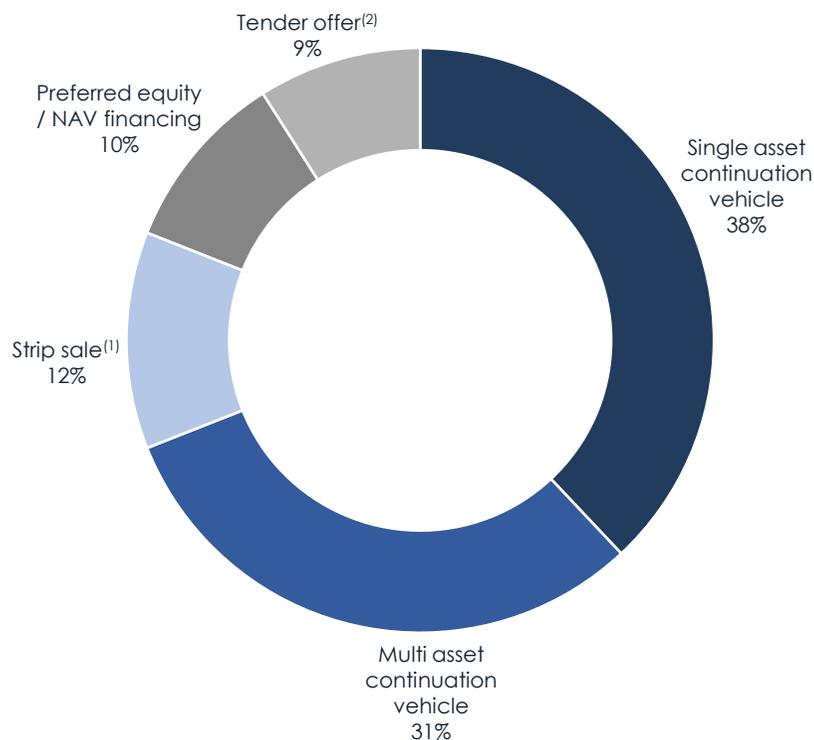
||| GP-LED SECONDARIES



CONTINUATION VEHICLES ARE STILL FAVORED BY GPs

GPs overwhelmingly prefer using continuation vehicles for their GP-led transactions as it offers an attractive combination to crystallise DPI and keep the ownership of their assets. NAV financing and preferred equity have gained a new interest, with GPs looking to raise capital at advantageous terms

Fund Managers most preferred type of GP-led transaction



Single and multi-asset continuation funds are chosen by almost 70% of GPs as their preferred GP-led transaction type. Continuation vehicles offer attractive terms, crystallizing DPI while ensuring the GP stays involved in the management of the underlying assets.



In challenging market conditions, interest around **preferred equity and NAV financing** transactions significantly increased. Offering the possibility to raise capital without disposal of the portfolio, the lending practice is now preferred by 10% of surveyed GPs



Tender offers and strip sale transactions offer alternative ways to provide liquidity and are also slightly on the rise as primary fundraising environment is still recovering. Around 20% of GPs see these transactions as their most preferred transaction type

(1): Strip sale: Sale involving a partial sale of a fund's investment (strip) in all/some underlying assets to provide LPs with liquidity

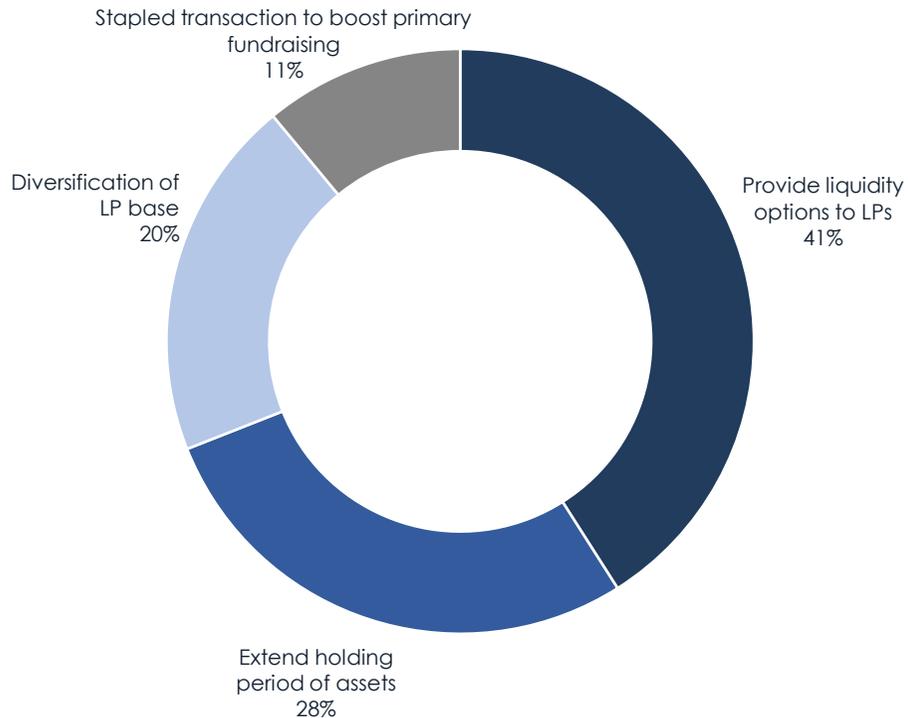
(2): Tender offer: GP-initiated secondary transaction involving selling part of a funds stake portfolio (usually between 20% and 30%)

Source: Jasmin Capital Annual Market Survey

LPs LIQUIDITY NEEDS & KEEP THE HOLDING OF ASSETS DRIVE GP-LED TRANSACTIONS

In a market environment characterised by liquidity constraints and lower DPI, providing LPs with liquidity options remains the main reason for GPs to complete a GP-led transaction. GPs also want to hold on to their prized assets. Finally, some GPs find GP-led interesting as it offers a way to diversify their LP base

Fund Managers main drivers to complete a GP-led transaction



Four in every ten respondent name providing liquidity options as the main priority when completing a GP-led transaction, underlining the current market conditions



Around 30% of GPs also look into **extending the holding period of a trophy asset** to create greater value and finance the development of key-assets through follow-on investments



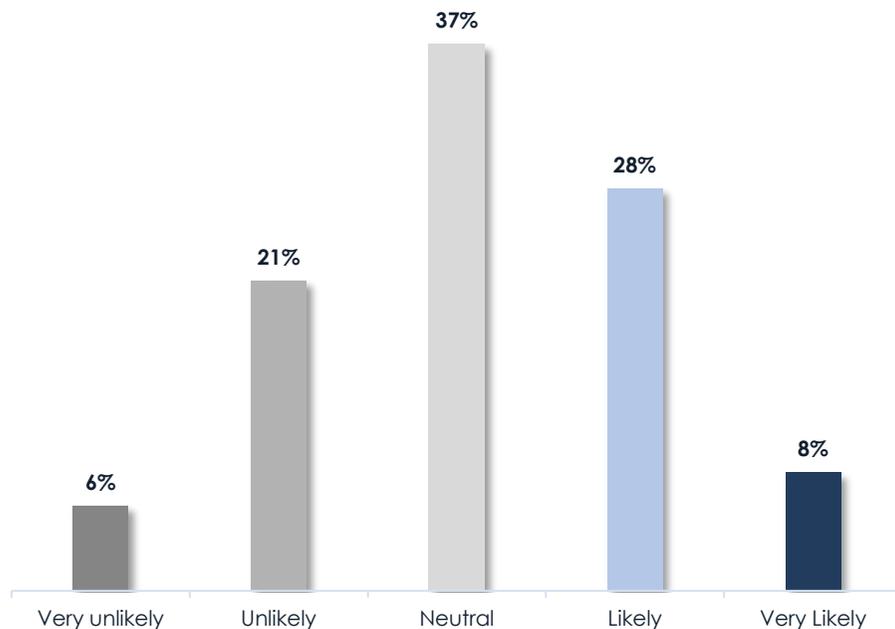
20% of responding GPs also complete a GP-led transaction in order to **diversify their LPs base**. It is key to sustain future fundraising. Finally, 11% of respondents also highlight the rise of stapled transaction for GPs

Source: Jasmin Capital Annual Market Survey

HIGHER INTERESTS IN STAPLED TRANSACTIONS

Around 11% of GPs name stapled transactions as their main reason to complete a secondary transaction. Stapled transactions are a new way for GPs to guarantee primary fundraising while also crystallising earnings on some of their assets

Fund Managers interest and likeliness to complete a stapled⁽¹⁾ transaction in 2023



Stapled transactions are transactions where an investor commits to a secondary transaction while taking part in the fundraising of the GP's upcoming fund. A stapled transaction is very **sought after by small/mid market GPs**



Stapled transactions remain a very **opportunistic investment proposition**. If 36% of respondents announce being "Likely" or "Very Likely" to complete a GP-led that includes a stapled transaction this year, there is about the same number of GPs being "Neutral" and not actively looking for stapled transactions



Buyers are cautious when it comes to stapled transactions. To commit to a primary fundraise, secondary investors are looking for **high quality GPs**, with a solid track record and **convincing rationale for the new fund**

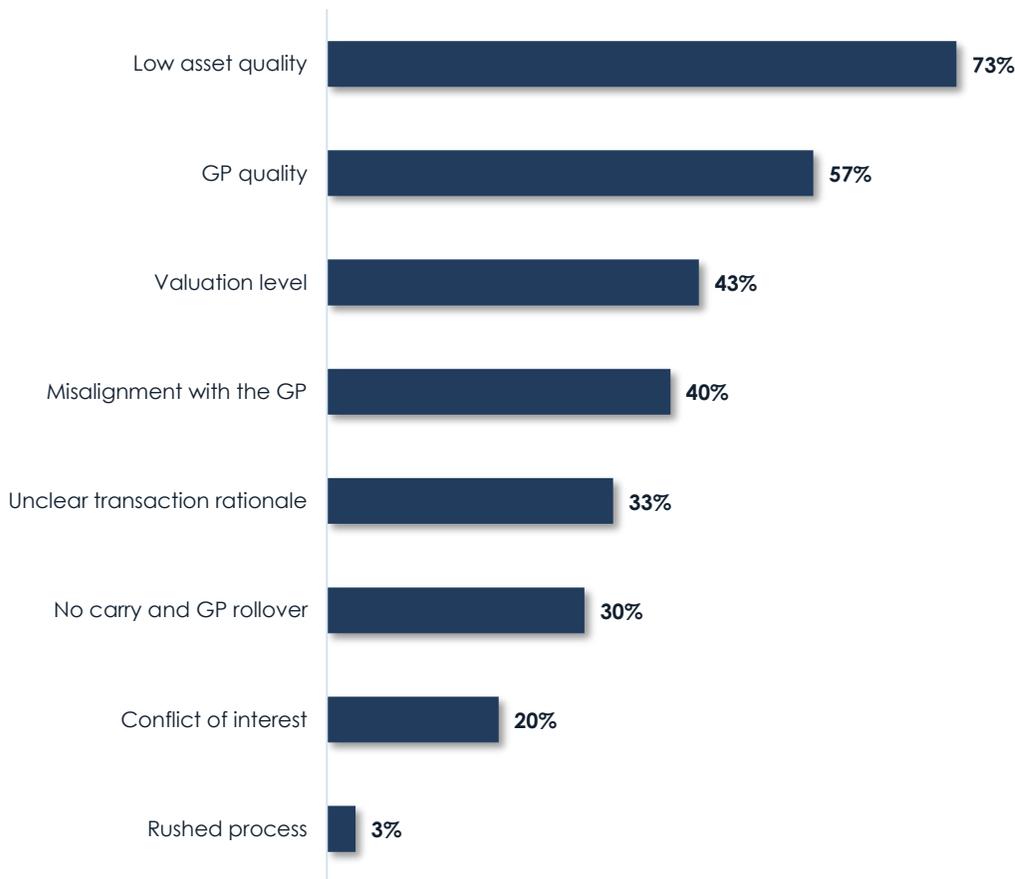
(1): Stapled transaction: hybrid transaction whereby a secondary sale is concurrent with a primary commitment a fundraising process from the same GP

Source: Jasmin Capital Annual Market Survey

RED FLAGS OF A GP-LED TRANSACTIONS

Buyers now assign greater importance to asset and GP quality when looking at a GP-led performance than the valuation level of the asset. Buyers also underline the importance of interest alignment and expect to see some carried interest being rolled over to the new fund

Fund managers red flags in a GP-Led transaction



Asset and GP quality are key factors to complete a GP-led transaction. Asset quality, chosen by **almost 75% of respondent**, eases the transaction and gives investor more trust in the GP. Buyers prefer to turn to reputable sellers when completing a GP-led transaction



Valuation is a major success factor in a GP-led transaction. A **cautious and reliable valuation** of the asset held by the GP before the transaction is a priority for nearly **half of the respondent** and still plays a major role in the decision making process



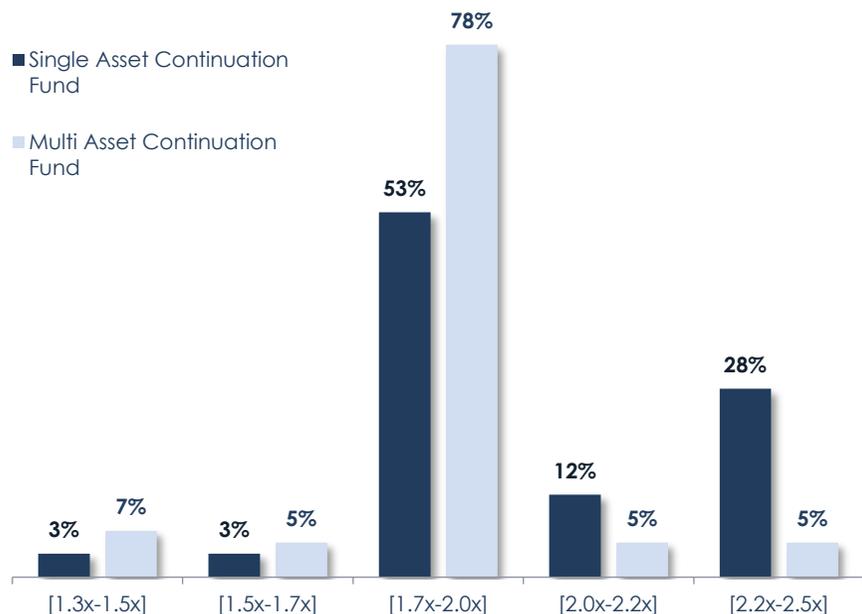
Alignment and conflict of interest must be considered and scrutinised during a GP-led transaction. **Concerns around the conflict of interest between the GPs and investors have been reduced** due to the significant number of transactions and established market practices, but remains main concern for 20% of buyers

Source: Jasmin Capital Annual Market Survey

GROSS RETURN EXPECTATIONS FOR SINGLE AND MULTI-ASSET CONTINUATION FUND

Investors' returns expectations differ depending on the type of GP-led transaction. Most investors are willing to ask for returns between 1.7x and 2.0x on the basis of diversification for multi-asset deals, but they expect higher returns for single asset deals, as these would often constitute a GP's "trophy asset" with a better growth trajectory

Secondary investors' expected return for single and multi-asset continuation fund



40% of surveyed secondary investors target a MoIC above 2.0x for single asset continuation funds while there is consensus in the 1.7x-2.0x range for a multi-asset continuation fund



In light of a generalised flight to quality, Trophy assets drive single asset continuation fund returns expectations up, with around 90% of respondents expecting returns higher than 1.7x



Buyers expect single assets continuation funds to deliver higher returns than multi assets continuation funds, as single assets are more exposed to losses due to a lack of diversification

Source: Jasmin Capital Annual Market Survey

IV

KEY FINDINGS

OUTLOOK ON 2023



KEY FINDINGS

1

LP-stakes transactions are on the rise

- In current turbulent market conditions, **LPs seem to become more interested in selling** their fund stakes on the secondary market, driving higher volumes. More LP stakes sales are now **expected to come to market** after being **put on hold** because of the past's unfavorable market conditions, or because of **lengthy decision-making processes**
- The main reasons for them selling are **Asset Rotation** (assets with target performance achieved), **liquidity for re-ups**, the **"denominator effect"** and **need of DPI**.

2

Secondary market finds some balance for LP-stakes pricing

- For buyers, **large cap Buyout fund stakes remain the most sought-after ones**, offering **relatively high pricing** for sellers (discount between 10% and 20%), especially for stakes in funds managed by top notch GPs (discount inferior to 10%). The **small/mid size Buyout fund stakes** attract more and more interest, with an increasing number of investors paying attention to this segment.
- **VC and Growth fund stakes transaction volume increases slowly**, as some buyers are still interested by this asset class, but some other walk away following the downward trend in valuation and the resultant uncertainty. Private debt and Infrastructure benefit from their high resilience during macroeconomic downturn.

3

Continuation vehicle projects dominate the GP-led segment

- Single and multi-asset **continuation funds are still the most preferred transaction type by GPs** to offer liquidity and crystalize DPI for LPs while remaining exposed to high-performing assets with potential follow-on.
- The **top 3 rationale for launching a continuation fund project** are: i) provide **liquidity** to the fund's LPs, ii) **hold on to trophy assets** longer and iii) create **new LP relationships**.
- **Tender offers are surging** in these challenging market conditions to give DPI to LPs, but they are facing some issues.

4

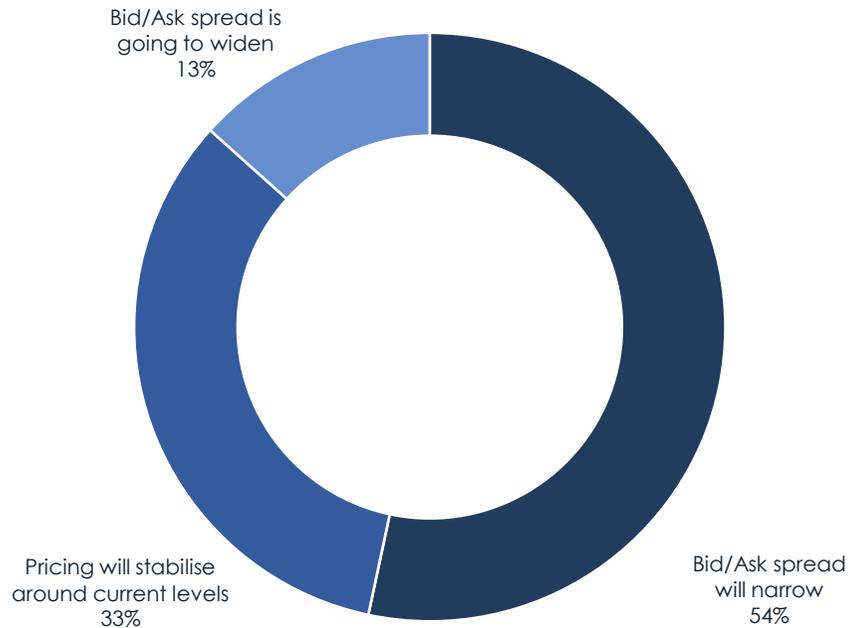
Stapled transactions are accessible, but not for every GP

- Market **perception on stapled transaction is fairly neutral**: buyers are not opposed to committing to such transactions but are not actively looking for it. Stapled transactions **remain a very opportunistic investment proposition** and is dealt with on case-to-case basis
- Secondary investors are more likely to offer a primary commitment if the **GP is very high quality**, with a solid track record and **convincing rationale for the new fund**

MARKET PARTICIPANTS SEE THE BID ASK SPREAD NARROWING IN THE FUTURE

The bid/ask spread is expected to stabilise around current levels or even narrow, with buyers and sellers improving understanding of the expectations, pricing levels, and rationale of each transaction

Secondary investors perspective on the bid/ask spread



More than 85% of secondary investors expect that bid/ask spread will stabilise or narrow in 2023 while only 13% anticipate that the spread will widen



This confidence in feeling highlights that secondary investors expect a notable **improvement of market conditions** that will stabilise or narrow the spread



These new market conditions are expected lead to an **increase in transaction volume compared to 2022, where volume reached \$108bn. Jasmin Capital forecasts secondary volumes between \$120-140bn in 2023.**

Jasmin Capital foresees a **larger penetration rate of secondary transactions** involving **small/mid cap funds**

Source: Jasmin Capital Annual Market Survey, Jefferies Global Secondary Market Review

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