PALICO

H1 2024 Pricing and Trends in LP-Led Secondaries

September 2024

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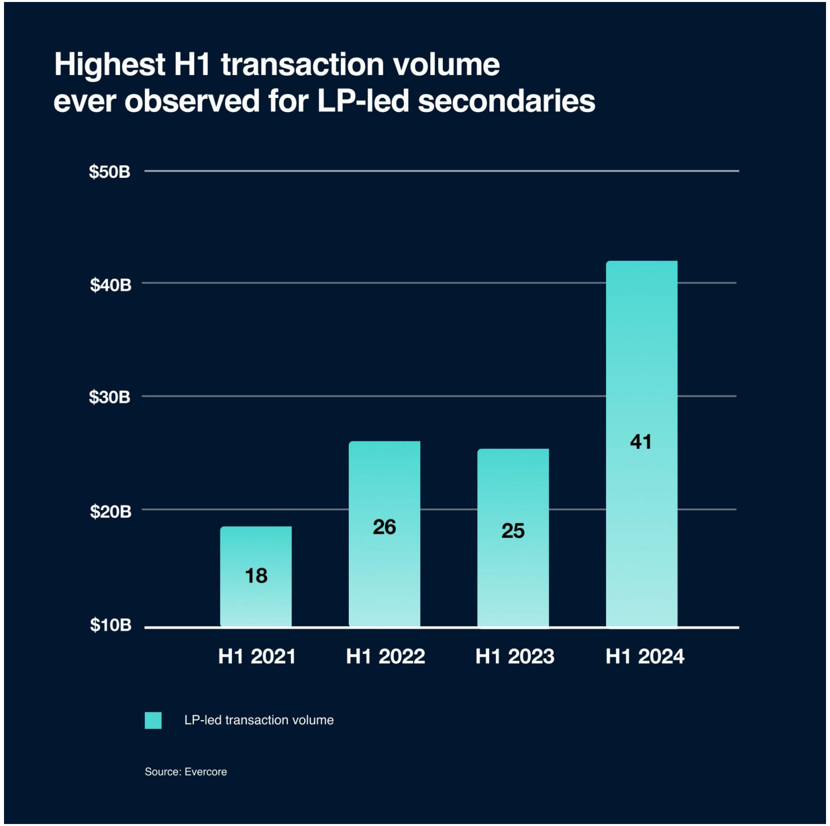
Secondaries
are Breaking Records

Overview

The secondary market hit unprecedented heights in the first half of 2024. Many investors remain over-allocated to private equity and other private capital strategies. Even those who are at target allocation are taking a more hands-on approach to their portfolio management, benefitting from a favorable pricing environment. Historically, the secondary market has been more active in the second half of the year, which means 2024 is on course to set a new high watermark.

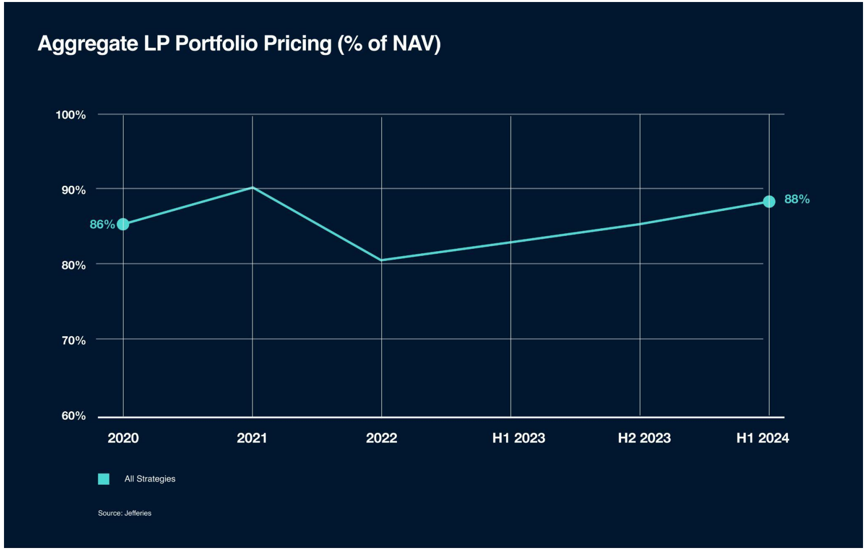
Snapshot

- Across all secondaries, transaction volume hit between $70bn and $72bn in H1, setting a new record for first-half performance (Jefferies PJT Partners, Evercore)
- LP-led deals made up the bulk of this volume, with $38bn-$41bn worth of value transacted (Jefferies, PJT Partners, Evercore)
- Persistent over allocation to private equity among institutional investors combined with historically low distribution activity from underlying portfolio companies is motivating LPs to sell
- Shrinking discounts to net asset value (NAV) is prompting LPs to review their portfolios for opportunities to trim fund positions and reallocate capital
- Secondary dry powder hit an all-time high of $189bn in H1, as established managers raise ever larger pools of capital and new entrants from multi-strategy alternative investment firms raise secondary capital (Evercore)
- First-time market entrants are embracing secondaries, buoyed by compelling pricing dynamics and motivated by their liquidity and portfolio rebalancing needs. Nearly half (45%) of LPs tapping the secondary market in H1 were debut sellers (Jefferies)



Secondary Pricing
Continues to Rebound

Overall pricing at its highest point since 2021 – NAV discounts continued to close in the first half, though naturally there is dispersion across strategies, reflecting where buyer appetite lies. Aggregate pricing for LP transactions across all private capital strategies increased by 300 basis points from the second half of 2023 (Jefferies), reaching 88% of NAV. This is the tightest pricing seen since 2021 and all asset classes saw an uplift through the first six months of the year.



Market forces are converging to drive pricing closer to par. The strong performance of public equities and a robust secondary fundraising environment have intensified competition among buyers, putting upward pressure on prices. With a record $189bn in committed, undeployed capital as of H1 2024 (Evercore), buyers are increasingly motivated to put their dry powder to work, leading to more competitive bidding.

Intensified competition amongst buyers pushed prices upward – The stabilizing macro outlook is also bolstering pricing. As exit conditions in private equity and venture capital show signs of thawing, buyers are willing to bid more competitively for quality assets. This optimism stems from expectations of faster returns from the higher probability of liquidity events on the horizon.

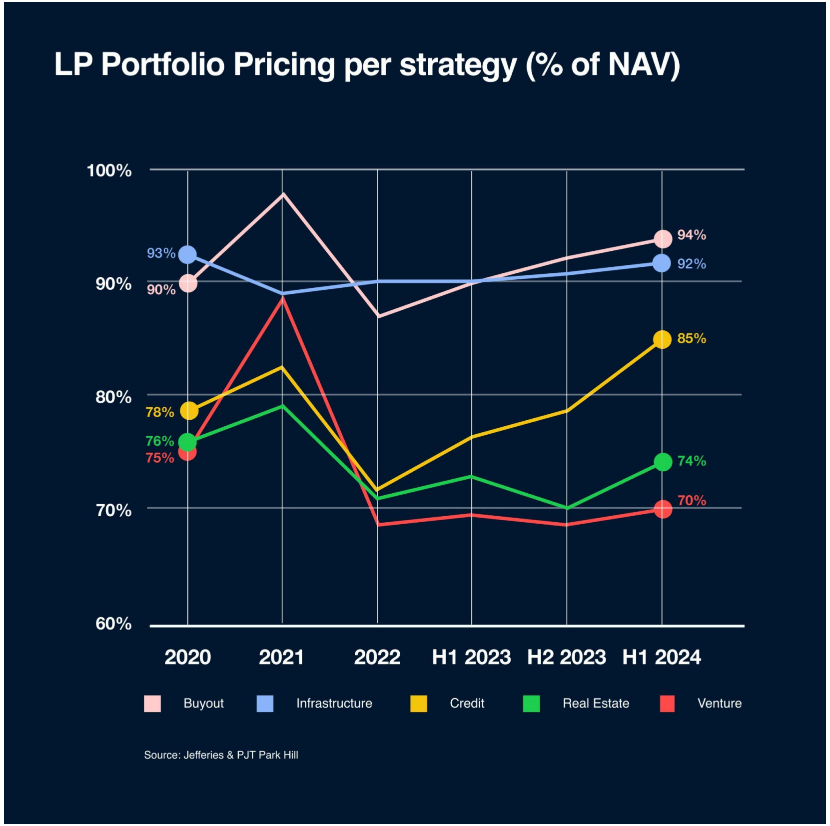
Deferred payments used as a key pricing lever – The use of deferred payments has also emerged as a key pricing lever. These structures allow buyers to offer more attractive headline prices while managing their cash flow. Sellers benefit from improved economics, effectively bridging bid-ask spreads and facilitating transactions that might otherwise stall. The current high-interest-rate environment means that sellers can earn a higher return on the deferred portion of a sale.

Focus
on Strategies

Buyout – Pricing inched up by 200 basis points since H2 last year to settle at 94% of NAV. This boost was largely driven by more recent vintages, as sellers focus on a more hands-on approach to their portfolio management. Tail-end funds are also recovering towards the normalized mid-70s range. Around 70% of LP-leds involved buyout funds in H1, for a total volume of approximately $28bn. (Jefferies, William Blair)

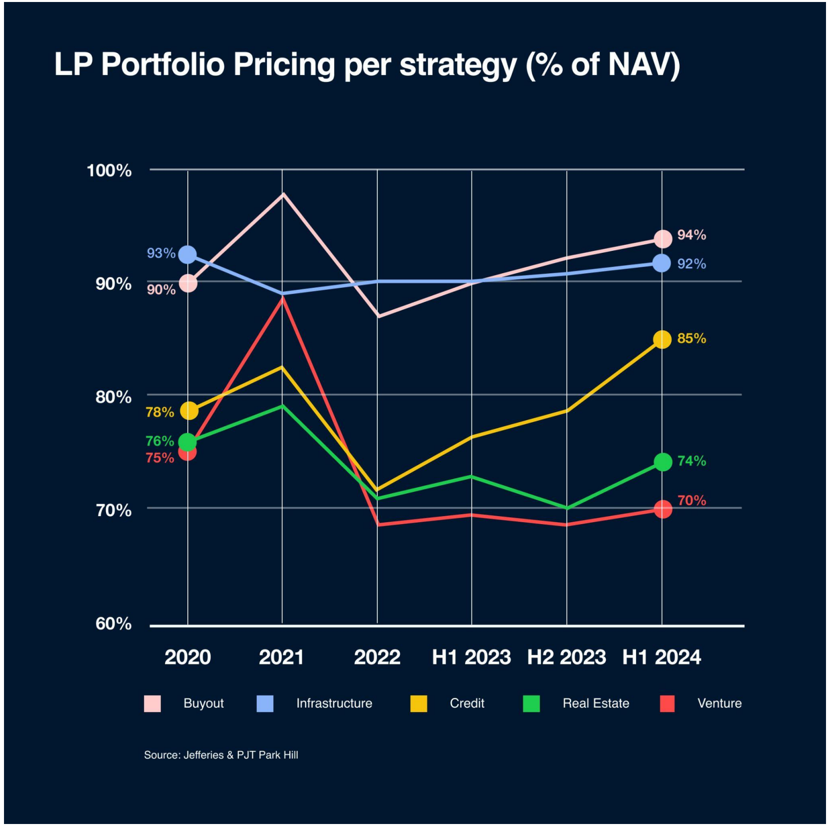
Infrastructure – Strong visibility into future cash flows has historically seen infrastructure funds exchange at the tightest discounts of any strategy, through market cycles. Buyout pricing has been gradually closing this gap, with infrastructure funds recently trading in the region of 90-95% of NAV. However, the strategy accounted for as little as 2% of LP-led secondaries volume in H1. (Hamilton Lane, PJT Partners, Jefferies)

Private debt/credit – Prices climbed by a full 700 basis points since the latter half of 2023, making private debt the best performer of all strategies on a relative basis. Pricing estimates are wide, with some lowering the average price to NAV in H1 at 85%, and others between the 90%-95% range. This was weighed down by distressed debt at 74% of NAV, while direct lending funds traded closer to par. Across these sub-strategies, private debt doubled its share of LP-led secondaries volume to 11% in H1 versus full-year 2023. (Jefferies, PJT Partners)



Real estate – Real estate funds experienced a notable 400 basis point price increase, bringing valuations to 74% of NAV, though some advisors are reporting a range low of 69%. This upturn was primarily driven by newer funds and those managed by industry veterans, with a particular emphasis on in-demand assets like data centers and industrial properties. Funds with high exposure to retail or office spaces continued to trade at substantial discounts, reflecting ongoing market uncertainties in these areas. As for volume, real estate accounted for 3% of transacted LP-led deal value. (Jefferies, PJT Partners)

Venture capital – Venture still has the widest discounts of any strategy. Average pricing gains in H1 matched buyout, increasing by 200 basis points to 70% of NAV by some estimates, while others put the average as low as 63%. Concerns over inflated valuations persist, which is keeping the bid-ask spread wide and holding back deal volume. Growth equity funds changed hands at a fuller price of 74%. Together, VC and growth made up 12% of LP secondaries volume. (Jefferies, PJT Partners)



Palico's perspective – Sellers should be mindful of the fact there is an ongoing flight to quality, which is skewing pricing data upwards on closed transactions. Buyers are actively pursuing funds with high-quality managers and perceived potential for near-term distributions.

The 'Goldilocks zone' for vintages is in the 2017-2019 range, with 2018 funds seeing the highest demand (PJT Partners). There is less buy-side interest in newer funds with substantial unfunded commitments, while tail-end funds across asset classes are naturally being priced towards the lower end. For certain strategies, venture capital in particular, the bid-ask spread remains wide, stalling deals.

Those seeking to maximize incoming bids and improve their chances of success should factor in these market dynamics before choosing which assets to sell.

Expectations
for the Future

The secondary market shows no signs of slowing down. Current projections suggest that 2024 could see total transaction volume surpassing $145bn, based on the current run rate. This would top the current annual high of $134bn set in 2021. This bullish outlook is underpinned by several fundamentals that are supportive of both pricing and volume.

Robust secondary fundraising continues to more fully capitalize the secondary market. Dry powder is at record levels even in such an active deal market, with dedicated pools of capital growing ever larger. Rising dry powder levels are intensifying competition among buyers, pushing prices closer to NAV across strategies. The narrowing bid-ask spread, coupled with tighter pricing to NAV, is encouraging more LPs to consider secondary sales as a viable liquidity option.

We're also witnessing a broader acceptance of secondaries as a strategic tool for portfolio management, rather than a last resort. This growing recognition of the benefits of secondaries is likely to continue bringing first-time sellers to market, further fueling volume growth.

Even as interest rates decrease, the use of deferred payments is expected to persist. These structures have proven effective in bridging valuation gaps and enhancing deal economics for both buyers and sellers, contributing to the market's continued dynamism and growth.

Palico Predictions

New Dynamics Shaping the Market

While the dearth of liquidity that has contributed to the current upturn in secondaries looks set to ease as exit conditions improve, the secondary market has crossed the Rubicon of acceptance. A number of secular tailwinds will ensure deal volumes continue to grow over the long term.

A wave of new sellers – Recent data points to a growing influx of first-time sellers entering the secondary market. This trend is expected to accelerate, as more investors recognize the strategic value of secondaries for portfolio management and liquidity. It's estimated that 27% of LPs are more aware of selling in the secondary market this year than last year (Jasmin Capital). Incoming maiden sellers will bring a more diverse range of assets to the market, potentially creating new opportunities for buyers and further driving market growth and stratification.

Smaller deals to create a new market share – The secondary market is poised for a shift towards smaller transactions. This trend is largely being driven by advancements in digital infrastructure, which are significantly lowering barriers to enter the market. As digital exchanges become more accessible and efficient, we anticipate a broader range of investors participating in secondary transactions, including those with smaller fund interests. Met with an increasing specialization of secondary funds, this democratization should improve market liquidity and deliver more dynamic pricing for a wider array of assets.

Private wealth capital to spur growth – The secondary market is set to benefit from a significant inflow of private wealth capital. With the alternative investment industry aiming to expand its reach to wealthy individuals, secondaries are an attractive option for this investor base to rapidly build private markets exposure by mitigating the J-curve effect. Currently, individuals account for approximately $4tn in alternatives assets under management, but this figure is projected to triple to $12tn over the next decade (Bain & Co). This surge in private wealth participation will undoubtedly boost what is an already robust secondary fundraising market.

Fund Price
Request

Share basic information about the position you would like to sell. You will then receive a Palico notification via email with your price indication based on historical data and similar funds. You can submit multiple forms to get indications on additional lines. For portfolio sales, please upload a file with line by line information.

Fund Price Request

Are you ready to sell? Fill out Palico's Intake Form to get started

About Palico
and the Team

As the first FINRA approved secondary marketplace, Palico offers an end-to-end solution for buying and selling small private fund positions. This purpose-built secondary marketplace connects investors to a global network of buyers and sellers, and simplifies the entire transaction process — from listing to closing. Deals happen faster, more securely, and with minimal fees.

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All the data presented previously was sourced from the latest available reports (as of August 31st, 2024) from Evercore, PJT Park Hill, Jefferies, William Blair, Jasmin Capital and Hamilton Lane.