Secondaries in 2024: Optimism, New Buyers, and Improving Deal Activity

Here’s the best way to sum up secondary-market activity as we approach 2024’s midpoint: Predictions that last year’s strong second half portended good things proved accurate. But a full recovery—at least to the heights of 2021—is still on the come.

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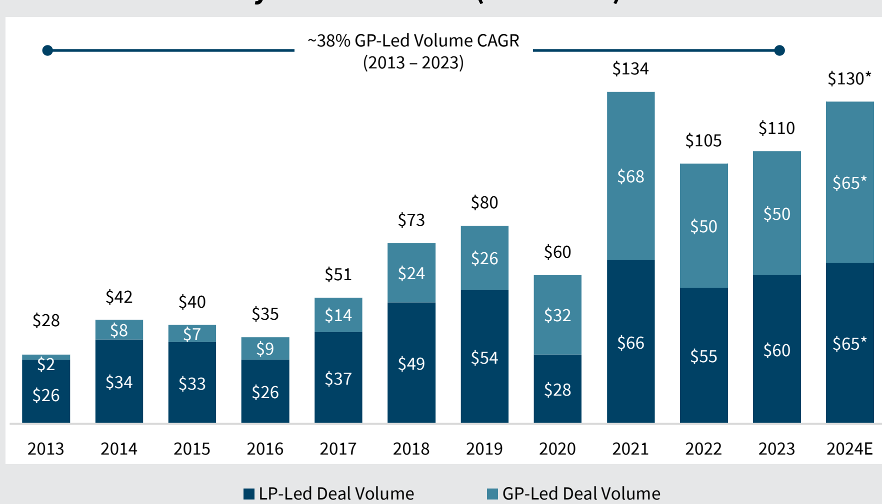
Optimism (with some of the expected macro-concern caveats) has certainly returned. In addition to increased activity, new buyers are bringing capital into a capital-hungry arena and appear largely additive, while simultaneously making for a more competitive market. Many of the entrants bring new ideas and approaches—either in their structures (e.g., 40 Act Funds, which access retail capital for secondary deals), targeted strategies (e.g., focused entirely on preferred equity or on single assets) or in deploying technology (e.g., using artificial intelligence to underwrite portfolios).

These new buyers are clearly drawn to secondaries’ growing momentum—we can conclude from our conversations with market participants that several large-cap LP deals have recently launched with others expected soon. But buyers have also likely noticed secondaries’ comparative resilience over the previous two years. Meanwhile, bid-ask spreads for LP-led transactions are improving (if slowly) and GP-led deal activity, which normally follows LP-leds’, has accelerated. Those factors, along with rising excitement about possible high-volume opportunities in Q3, position the secondary market well for the rest of this year, as we explore in the following report.

Historical Secondary Market Volume (in Billions)[1]



*Estimated amount

1. Sources: [2024 William Blair Secondary Market Report](#) and William Blair estimates.

LP-Led Focus: Deals Getting Done, But Quality is Key

When it comes to LP-leds, momentum that we noted in our January newsletter continues and pricing is good enough for sellers with even the slightest degree of bona fide strategic motivation to pull the trigger. That's an improvement from the beginning of the year, but it's also incremental—and not quite enough for opportunistic sellers to jump into the fray. Indeed, the market in the year's early months could often be best summed up by something sellers heard a lot: "The bid is the bid."

That began changing this spring, continuing rather rapid—and encouraging—improvement for secondaries: just a year ago, pricing was bad enough and bid-ask spreads so wide that sellers were waiting on deals, unless they were highly motivated or even distressed. If the trendlines of the past year continue, secondary activity levels could very well approach the high points of 2021, which respondents to our latest Secondary Market Report predicted earlier this year.[2]

But negotiations in the year's first half have been hard-fought. Consider the effectiveness of deferred purchase prices, perhaps the simplest and most accessible way for buyers and sellers to close pricing gaps. In such arrangements, sometimes called "seller financing," sellers agree to be paid over a period of time—for example, half upfront, half in 12 months—if buyers are willing to pay more in total.

Despite the improving market, the approach has been less effective compared with previous years. With buyers projecting just a small amount of liquidity in the immediate aftermath of transactions, they're only increasing their offers accordingly, and typically not enough to close deals. Other common methods used to find middle ground are not filling the void; high interest rates make third-party financing less attractive and other approaches (e.g., preferred equity and collateralized fund obligations) can be complex, limiting their appeal to investors for whom alternative structures can meet their objectives better than a regular-way secondary sale.

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It is difficult to gauge whether and when that will change—just as it is to predict when we will return to a period characterized by strong enough pricing to attract sellers who are purely opportunistic. Much of that will have to do with macro factors, as we discuss in the next section of this report.

Macro Concerns Abound. Can Secondaries Continue Their Resilience?

Macro concerns are definitely on the minds of market insiders, with metrics on inflation and interest rates trending in a less-liquidity-friendly direction than was expected early in the year. But there is good news on this front for secondaries, which demonstrated remarkable resilience despite high interest rates (and considerable global conflicts) over the past two years. Further, there are reasons to believe that the resilience has staying power. Even as secondary activity levels fell 18% in 2023 compared with 2021,[3] the declines for broader M&A and IPO activity were far sharper—36%[4] and 81%,[5] respectively. According to PitchBook's 2023 Annual Global M&A Report, both of those categories were lower last year when compared with 2022, but secondary activity increased 5%.[6]

Looking ahead to the rest of 2024, dry powder is at an all-time high, with 2023 secondary fundraising exceeding the record set in 2020.[7] But with secondaries still working their way into the mainstream of the investor universe, supply (i.e., opportunities to invest) continues to outstrip demand (investors ready to deploy).

Indeed, some market insiders speaking at industry events have evoked eyerolls for basing claims of market health on dry-powder totals without factoring in a likely lag in near-term deployment. The derision stemmed from other insiders' fears that painting such an incomplete picture could create unrealistic seller expectations. Relatedly, a PitchBook analysis found that just 72 funds were involved in secondary fundraising last year—down from 119 in 2022—with four funds representing more than 60% of 2023's total.[8] Much of that had to do with macro factors and flights to quality (i.e., known quantities are common in more challenging markets), and the concentration in 2023 also likely led to significantly lower secondary fundraising totals in the first quarter of 2024.

2. Source: 2024 William Blair Secondary Market Report.
3. Source: Ibid.
4. Source: PitchBook Data Inc., 2023 Annual Global M&A Report.
5. Source: S&P Global CapitalIQ.
6. Sources: 2024 William Blair Secondary Market Report and William Blair estimates.
7. Source: Preqin.
8. Source: PitchBook Data, Inc. "Time for secondaries to take center stage?" March 28, 2024.

GP-Leds Bouncing Back After Helping With Secondaries' Recent Fortitude

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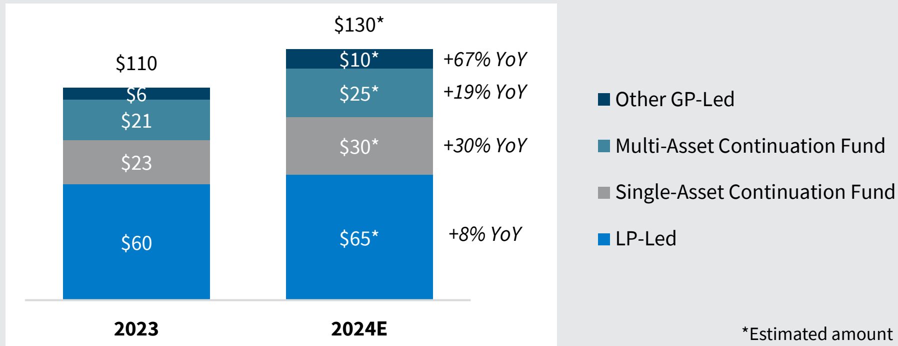
A surge in LP-led activity was the key driver for much of the improvement in secondaries in 2023's second half. GP-led activity appears to have accelerated in the first half 2024—a cadence that is normal and expected; improved LP-led activity typically leads to the same for GP-leds.

Secondary Market Volume Estimates (in Billions)[9]



*Estimated amount

Digging deeper, the primary driver in the growth of GP-leds in recent years—the emergence of single-asset continuation funds, beginning around 2019—shows no signs of slowing. Indeed, insiders predict that the single-asset continuation fund will have stronger growth on a percentage basis (30%) than multi-asset continuation funds (19%) and the larger LP-led space (8%) this year.[10] That is partly because deals involving single assets are common—and therefore, relatively easy to understand for investors new to secondaries.

It also appears that secondaries' resilience over the past two years partly resulted from GP-leds' ability to address numerous platform-fund and asset-level objectives—e.g., solving liquidity challenges while holding onto important assets that GPs are familiar with—in addition to price.

The ongoing improvement for both M&A and IPO could seem to be competition for secondaries. But the reemergence of these "traditional" exits will likely be a boon for GP-led secondaries, as a healthy exit environment and valuation comparables should support constructive underwriting and strong pricing for high-quality companies.

In addition, GPs will most likely continue to seek to provide that liquidity amid a competitive fundraising environment, leading to steady (and robust) supply and demand for GP-led solutions. We also predict an improving deal-closing success rate across the GP-led market, as a recovery in M&A and IPO markets should support an increase in GP-led transaction actionability.

9. Source: [2024 William Blair Secondary Market Report]. Deals in the "Other GP-Led" category include tender offers, strip sales, fund restructurings, and recapitalizations, spin-outs, and spin-ins.
10. Source: [2024 William Blair Secondary Market Report].