Momentum Continues for Secondaries—With Record Year in Sight

Strong momentum for secondaries that began in the second half of 2023 accelerated into this year's third quarter in a market characterized by improving LP-led pricing, continuing adoption by both GPs and LPs, and a growing supply of capital.

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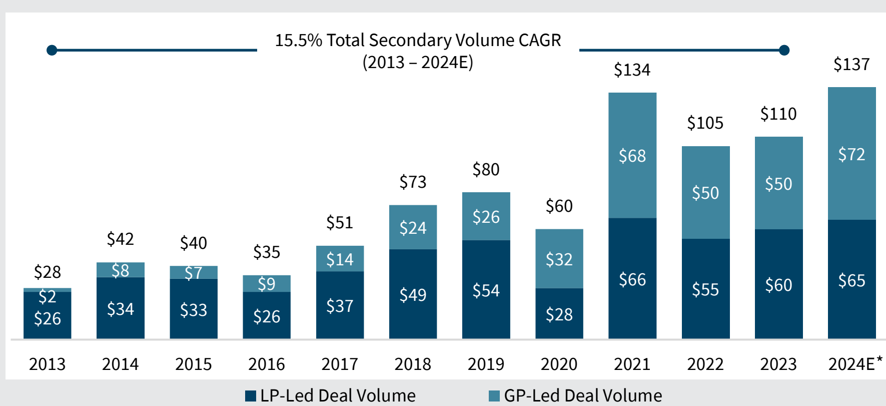
Indeed, existing players and new entrants have collectively secured record levels of dry powder as investors continue to back this emerging asset class—headlined by existing players raising their largest-ever funds, entry from completely new players, and the rise of retail investors through newly formed '40 Act funds. It's a sunny picture with pricing recovered in parallel with improved M&A and IPO markets.

Simultaneously, recent macroeconomic volatility is prompting most secondary investors to focus on less-cyclical sectors where possible, such as professional services, financial services, and distribution services. Increased demand across these sectors along with improved public-market performance, an emerging wave of exits, and a continued acceptance of secondary technology has primed this market for a significant year.

All signs point to a full rebound for secondaries, likely by year-end. That would mean nearly $140 billion in total activity, surpassing totals from 2021—secondaries' best year on record. If that happens, it will show that even bullish expectations from early 2024—when insiders expected totals around $130 billion—were a bit conservative.

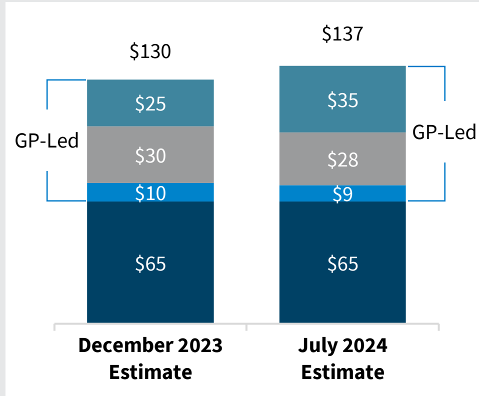
Historical Secondary Market Volume (in Billions)[1]



*Revised estimate as of July 2024.

1. Sources: William Blair Estimates; 2024 William Blair Secondary Market Survey.

Expected 2024 Secondary Volume (in Billions)[2]



William Blair adjusted its estimates for total 2024 secondary volume in July based largely on strong interest in multi-asset continuation funds, a primary driver of GP-led activity. "GP-Led Other" refers to activity not related to continuation funds.

As the fourth quarter begins, market insiders appear increasingly confident that the $65 billion projected for LP-led activity in early 2024 will come to fruition and that GP-led performance will exceed similar projections from that time. While caveats about supply on the LP-led side and macro concerns should not be dismissed, optimism is the prevailing mood, as we detail in the following report.

Record First Half for LP-Leds—With a Slight Wrinkle

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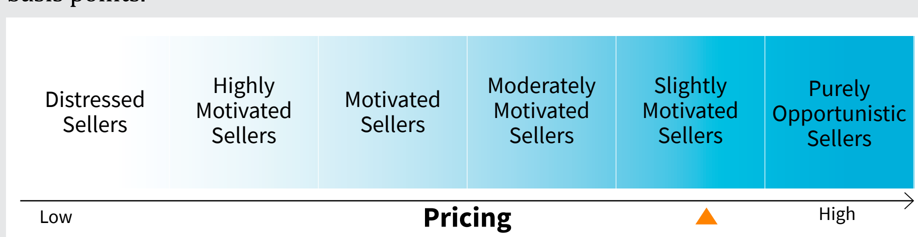
Improved LP-led pricing led to a record first half, and the purported fundraising cliff that made headlines early in the year proved to be what smart insiders thought it was—a brief slowdown after a late-2023 surge. By midyear, fundraising had rebounded with big players making even bigger bets on secondaries, announcing plans to raise their largest-ever funds.

Still, some sellers' expectations remained a bit higher than what the market would bear. As a result, at least one large LP seller opted not to transact, leaving a number of high-capacity buyers scrambling for deployment opportunities in a relatively undersupplied market. But that actually should bode well for even stronger competitive price dynamics heading into the year's final stretch. In fact, sellers can now be generally characterized as verging on opportunistic (see chart below). Whether enough supply becomes available in the coming months is an open question, though there has been a healthy amount of deal launches in recent weeks.

Understanding Secondary Market Pricing[3]

Activity in secondaries is trending in an increasingly seller-friendly trajectory, with robust demand from new buyers who are seeking high-quality, diversified opportunities. The chart below shows a spectrum of how sellers' actions correspond with average pricing, with the arrow representing the current state of the market. Each move to the right represents an increase of approximately 50 basis points.



Other trends have emerged for LP-leds. New vintage funds are dominating on the sell side with mature assets that have public exposure less likely to be sold as they suffer from market volatility. The full effect will depend on when the market stabilizes and how any stabilization is reflected in valuation marks. Buyouts remain the most-transacted-upon asset class strategy, but that could change if the wide bid-ask spreads that have persisted in the venture capital/growth category shrink.

2. Source: William Blair Estimates.
3. Source: William Blair Estimates. For illustrative purposes only.

Additionally, a number of new entrants in venture secondaries are seeking to take advantage of a backlog of volume sellers have been waiting to resolve. But the restrictive nature of venture/growth managers combined with the large number of smaller funds for which few if any buyers have off-the-shelf pricing bodes for a slow and incremental recovery relative to the buyout segment of the market.

Records for GP-Leds, Too

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As is normal in the modern secondary market, an increase in LP-led pricing led to increased GP-led activity. With LP portfolios no longer available at especially favorable pricing, investors have returned in full force to the GP-led market—resulting in a record first half for GP-leds and giving life to an encouraging third quarter.

The results include strong activity for multi-asset continuation funds, especially for larger-cap funds and for single-asset continuation funds in the midmarket. As has been the case for the GP-led market for some time, quality transactions involving performing assets continue to drive volumes, no matter the structure.

Recent reports have shown that to date, continuation funds have generated returns in line with buyout funds of similar vintages, and with less volatility than their buyout peers. One March 2024 report from a global private markets management firm found that "single-asset GP-led secondaries historically have a tighter return band, and much lower loss ratios" when compared with a basket of buyout funds.[4]

Unsurprisingly, this momentum has attracted interest and capital from large institutions and retail investors alike. As M&A and IPO volumes continue to recover, exits for GP-led continuation funds of years past should further galvanize investor confidence in the burgeoning asset class. As company and GP quality have been top drivers of GP-led transaction volumes, encouraging investment performance across the asset class to date comes as no surprise.

Just as on the LP-led side, significant dry powder from existing players raising record funds, new market entrants raising capital, and the rise of retail investors holds promise. The introduction of new capital should help alleviate some of the much-discussed supply/demand imbalance and help this market continue its momentum for years to come.

Strong Outlook Going Into 2025

The emergence of secondaries has continued over the past few years despite the broader market pullback—and a record 2024 is now in sight. As we look to 2025, the improved understanding of the market, new players, and general momentum provide strong reason to believe secondaries have affirmed their place as an alternative liquidity option for both LPs and GPs alike.

4. Source: Hamilton Lane, "2024 Market Overview," March 7, 2024.