Private Capital Advisory
Secondary Market Overview

March 2024

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Executive summary

The secondary market experienced a strong pick-up in H2 2023, with robust activity and volume across GP-led and LP-led markets, a trend expected to continue in 2024

Another banner year for the secondary market

- The secondary market remained resilient and grew in 2023 reaching $110bn, achieving the 2nd highest volume year on record
- Bid-ask spreads for LP-led transactions narrowed and the universal acceptance of continuation vehicles ("CVs") as a viable exit pathway for private assets supported the strong volumes in 2023
- Investors in the secondary market also achieved record outcomes – fundraising for large secondary platforms did extremely well with three players raising over $20bn each

All signals indicate more to come

- Q1 2024 is off to an active start - continuing its momentum with several significant GP-led and LP-led transactions coming to market
- Secondary market dry powder remains strong as more new non-traditional secondary investors build out their secondary capabilities
- We anticipate 2024 to continue its upward trend irrespective of wider macro uncertainty (inflation, interest rates, U.S. election) as liquidity continues to be a top priority for sponsors and LPs

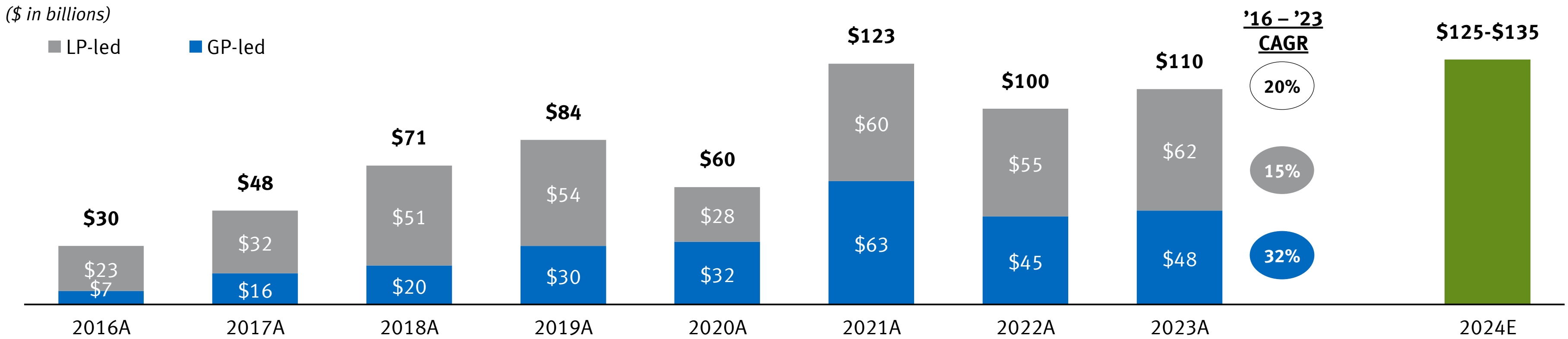
Eaton Partners
Private Capital Advisory Team

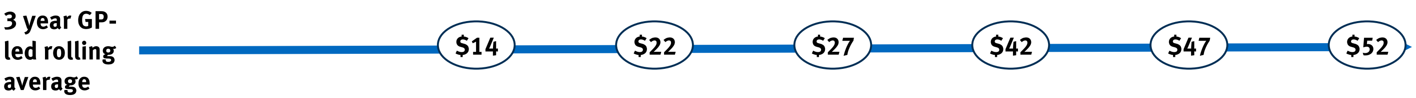
- Provides bespoke strategic advice to GPs and LPs, offering a full suite of private capital raising and liquidity solutions
- Extensive universe of institutional investor relationships – both regular-way and non-traditional secondary buyers – with deep touchpoints among the top 20 secondary firms
- Dedicated PCA team has extensive experience advising on GP-led, LP-led, directs / co-investments and GP stakes transactions across geographies and asset classes

2023 secondaries market update

Despite challenging macro-economic factors, 2023 represented the third consecutive year of secondary market volume ›$100bn and the second highest volume in secondary market history

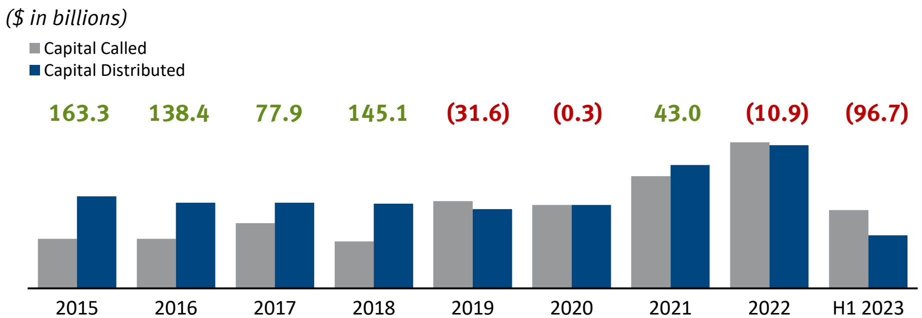
2023 represented the third consecutive year of transaction volume ›$100bn





Eaton Observation:
The increasing rolling average highlights the growing use and acceptance of CV technology

Global buyout capital called and distributed



- Decline in traditional exit pathways has significantly impacted distributions, forcing LPs and GPs to seek secondary solutions to achieve liquidity
- A negative net spread leads to an increasingly stressed fundraising environment, as LPs are forced to manage the liquidity shortfall by reducing new primary commitments

Change in volume by exit pathway (year-over-year)[1]

	2021 → 2022	2022 → 2023
M&A	(40%)	(15%)
IPO	(72%)	(40%)
Secondary	(19%)	+1%

- Traditional exits pathways such as M&A and IPO experienced consecutive years of dramatic decreases since 2021 peaks
- GP-led exits represented ~11% of 2023 global sponsor-backed exit volume
- Secondary volume recovered from 2022 lows, exhibiting positive growth in 2023 and tremendous momentum heading into 2024

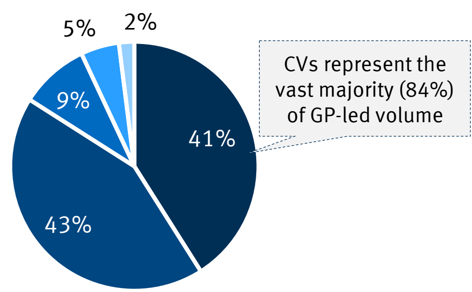
Source: Preqin, PitchBook, PEI Secondaries Investor, Eaton Partners estimates.
1 Calculated as the year-over-year change in total global exit volume. M&A includes both strategic and sponsor-backed M&A.

2023 GP-led market snapshot

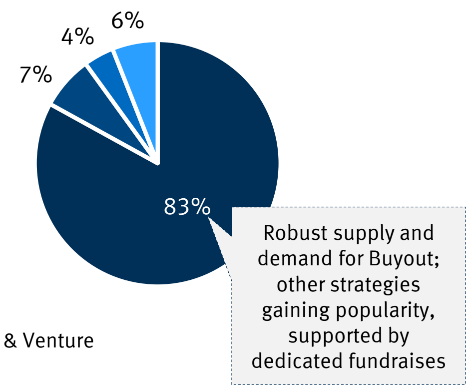
GP-led transactions find a permanent home in the market with widespread acceptance as an innovative and necessary liquidity solution through market cycles

GP-led transaction volume breakdown

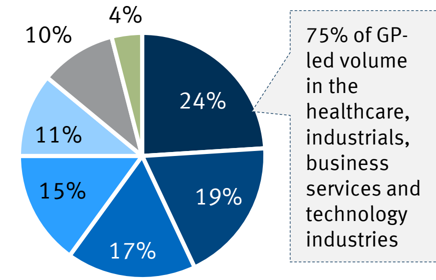
GP-led Volume by Transaction Type



GP-led Volume by Strategy



GP-led Volume by Industry



2023 GP-led market at a glance

CV Exits Proving Product Effectiveness

- >50% of exits out of 2018 – 2020 vintage CVs recorded a 2x+ net MOIC
- For vintages 2018 – 2023, early data suggests that the median MOIC for CVs is in-line with secondaries funds while outperforming buyout funds

Seeking DPI

- GPs remain highly focused on generating DPI amid difficult M&A and IPO markets, driving increased use of multi-asset CVs (43% of GP-led volume)
- GPs recognize that CVs help to maximize fund track records and create liquidity for LPs, both critical actions ahead of primary fundraises

Focus on the Middle Market

- Buyout assets requiring <$1 billion of equity represented the majority of single-asset CVs given lower syndication risk and lower likelihood of reliance on an IPO-exit
- Increase in supply of mid-sized deals amid widespread adoption of CVs by middle market GPs

Increasing GP Commitments

- Buyer expectations for GP commitments to CVs is trending to 5%+ to ensure strong alignment
- Strong rationale and narrative required for commitments <5% of the CV and any liquidity taken

Shrinking Check Sizes, Growing Buyer Universe

- Smaller anchor checks resulted in elongated syndication processes for larger deals (>$1bn)
- Traditional LPs and GPs are establishing secondary underwriting capabilities and, in some instances, raising dedicated capital to participate as secondary buyers

Dedicated Sub-Strategies

- A combined $36 billion raised in 2023 by top 20 secondaries firms for dedicated secondaries sub-strategies such as credit, infrastructure, venture and real estate
- A rise in dedicated GP-led funds supplementing buyers flagship funds supports increased volumes

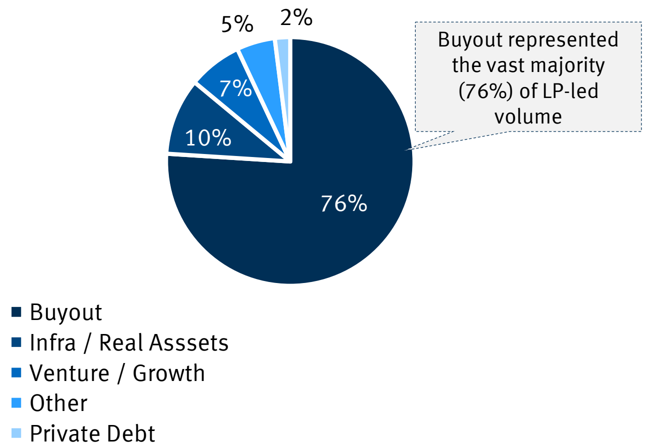
Source: Preqin, PitchBook, PEI Secondaries Investor, Eaton Partners estimates.

2023 LP-led market snapshot

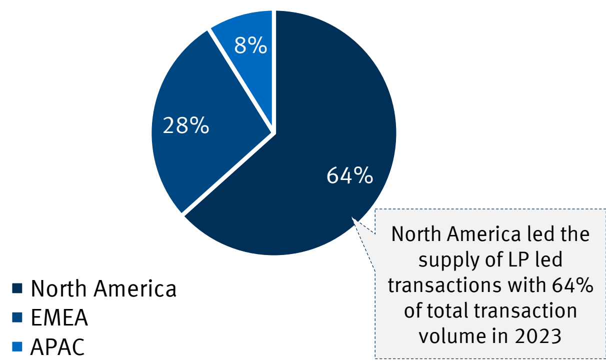
LP-led volume continued its resurgence, representing ~56% of total estimated 2023 secondary market volume, reflecting a shift in buyer preference from concentrated GP-led transactions to more diversified LP portfolios

LP-led transaction volume breakdown

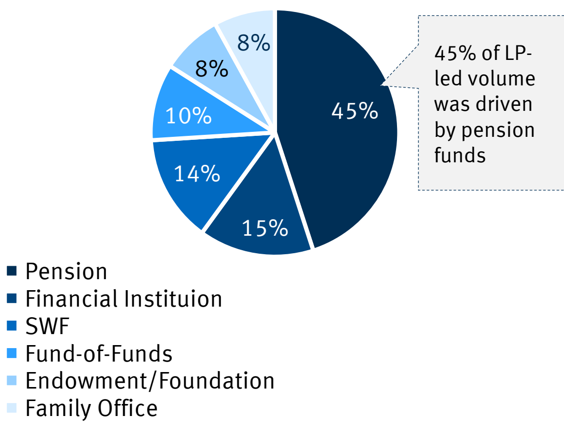
LP-led Volume by Strategy



LP-led Volume by Geography



LP-led Volume by Seller



2023 LP-led market at a glance

Market Dynamics

- Low sponsor exit activity underpinned the strength in LP-led volume as LPs continued to turn to the secondary market for liquidity
- LPs sold high-quality, newer vintage funds in an effort to minimize discounts

Price Improvement

- LP secondary market pricing rebounded to 85% on a blended basis, up 5% from 2022
- High-quality, buyout funds are able to achieve single digit discounts while venture funds continue to struggle

LPs Turning to Secondaries for Distributions

- In a relatively quiet IPO and M&A environment, more LPs are proactively utilizing secondaries to create innovative portfolio management solutions
- Secondaries continue to demonstrate stability over time, and the LP-led market has proven to be an effective tool to accelerate distributions

Buyer Focus on Diversification

- After a surge of single and multi-asset GP-led deals in 2020-2022, many secondary buyers have shifted attention to more diversified LP portfolio deals where the risk-return profile has become more favorable

Buyer Bifurcation by Size of Portfolios

- Secondary market continues to be split between a handful of buyers who consistently bid on large portfolios, and many other buyers who selectively focus on smaller portfolios
- In 2023, small number of buyers accounted for nearly a majority of the total LP-led volume

Dedicated Sub-Strategies

- The continued influx of dedicated credit and infrastructure secondaries capital has led to an increase in buyside competition in deals, creating favorable market dynamics for sellers

Source: Preqin, PitchBook, PEI Secondaries Investor, Eaton Partners estimates.

2024 secondary market predictions

A strong start to Q1 2024 provides optimism of another banner year - absent any material market dislocation or shock, we predict that the total transaction volume can exceed $125 billion

›$125 BILLION TOTAL TRANSACTION VOLUME	A record year of ›$125bn of volume, surpassing the previous record high in 2021
CVs USED TO ENHANCE FRANCHISES	Lower middle market and middle market sponsors will proactively use the secondary market to 'super-charge' their franchise
CASH IS KING	LPs will focus on solutions that provide liquidity today - decreasing appetite for solutions with longer deferrals
CV & PRIMARY FUNDRAISING GOALS ALIGN	Investment and investor relations teams will be more coordinated as CV transactions are increasingly used in portfolio management
INFRASTRUCTURE, CREDIT AND REAL ESTATE	Both GP-led and LP-led volumes will see greater representation of infrastructure, credit and real estate, with increased buyer specialization in each asset class

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Eaton Partners – PCA Overview

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Eaton Partners | Stifel - Private Capital Advisory

PCA sits at the intersection of a premier mid-market investment bank and leading placement agent

In 2023, Eaton Partners launched its Private Capital Advisory platform. The platform consists of four product verticals that focus on the capital needs of private market investors

Eaton Partners | Stifel – Private Capital Advisory

GP Solutions	LP Solutions	Directs and Co-Investments	GP Stakes
Transactions structured to generate liquidity in portfolios / assets, raise follow-on capital, extend hold period and enhance performance metrics in advance of a new fundraise	Generate capital for LPs seeking to address liquidity needs, rebalance portfolio allocations, reduce exposure to certain asset classes or legacy GPs, divest from older vintage funds and more	Raise capital for institutional and fund-less sponsors to support leveraged buyouts, management buyouts, corporate carve-outs and follow-on or growth equity needs beyond existing capacity	Partner with specialist groups that provide capital to GP management companies to facilitate long-term growth and stability

- **$140bn+** raised across **188** private funds since inception
- **650+** capital commitments closed over the last three years
- **20** distribution professionals situated globally
- **12,000+** relationships with LPs representing **~4,000** distinct pools of capital
- Expertise raising private equity, private credit, real assets and hedge funds
- Dedicated **Private Capital Advisory** group, including a **GP Solutions** team specializing in GP-led liquidity solutions

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Eaton Partners is a leading placement agent with a longstanding track record of private capital fundraising

PCA

STIFEL
Investment Banking

Stifel is a premier mid-market investment bank with deep industry expertise and sponsor coverage

- **#1** in U.S. M&A transactions under $1bn among mid-market advisors[1]
- **#1** in U.S. public equity deals under $1bn market cap[2]
- **#3** in all managed venture capital backed IPOs[3]
- **Top 10** equity research ranking for 14th consecutive year
- **$1bn+** in high net worth and private banking client commitments to alternative investments annually
- Coverage groups across healthcare, consumer & retail, technology, energy & natural resources, FIG, etc.

1 Dealogic. M&A Analytics as of as of 11/30/23. Note: Includes all sell-side and buy-side strategic or sponsor-backed disclosed value deals, where the deal is announced between 2012 and 2022 YTD, with a North American target, acquirer, acquirer subsidiary or divestor, and a final stake greater than 50%.
2 Dealogic. Rank-eligible SEC registered IPOs and Follow-on offerings since 2012 as of 11/30/23.
3 Dealogic. Venture-backed IPOs ranking since 2005 as of 11/30/23.

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PCA – Our four core verticals

Our four verticals address enable sponsors and private market investors access to the full breath private market liquidity solutions

GP SOLUTIONS

GP-led secondary market solutions tailored to meet GP's objectives

- Transactions structured to generate liquidity in portfolios / assets, raise follow-on capital, extend hold period and enhance performance metrics in advance of a new fundraise
- Provide sponsors with incremental runway and reset GP economics for enhanced alignment for the current investment team

LP SOLUTIONS

Full suite of portfolio management and liquidity solutions for LPs

- Generate capital for LPs seeking to address liquidity needs, rebalance portfolio allocations, reduce exposure to certain asset classes or legacy GPs, divest from older vintage funds and more
- Optimize pricing and cash flows through a competitive market-driven process

DIRECTS & CO-INVEST

Capital raising for identified direct and co-investment opportunities

- Raise capital for institutional and fund-less sponsors to support leveraged buyouts, management buyouts, corporate carve-outs and follow-on or growth equity needs beyond existing capacity
- Access to broad universe of non-traditional investors

GP STAKES

Strategic and flexible growth capital solutions for GP franchises

- Partner with specialist groups that provide capital to GP management companies to facilitate long-term growth and stability
- Flexible capital solutions in the form of minority equity, preferred equity or management company loans
- Allows GPs to make larger GP commitments, support new product launches and plan for succession

We provide best-in-class process management from pre-launch through closing

- ✓ Create customized marketing materials that provide a clear and compelling transaction narrative
- ✓ Partner with Stifel's industry bankers to provide detailed industry insights and valuation expertise
- ✓ Utilize Eaton's global distribution team to reach both regular-way and non-traditional secondary investors, GP stakes buyers and capital providers
- ✓ Facilitate bidding process to drive competitive tension between investors and maximize terms
- ✓ Provide seamless transaction management to minimize burden on GP & management teams

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We are a fully integrated global placement agent comprised of project management professionals, private capital advisory specialists and a 20-person global distribution network

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