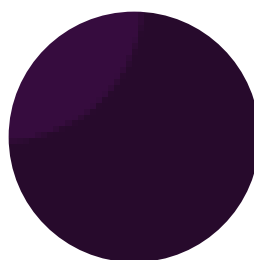
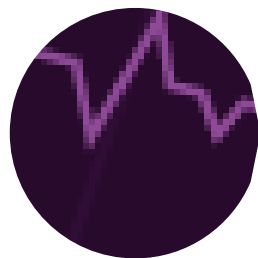
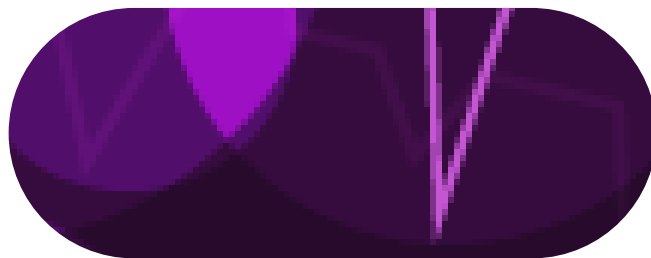
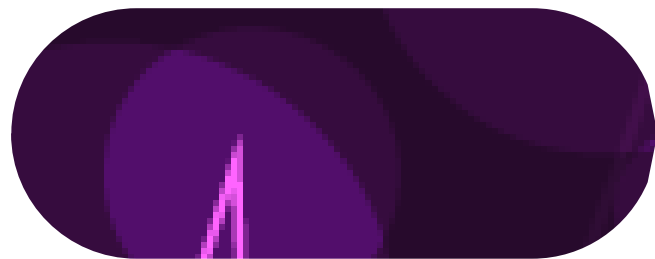
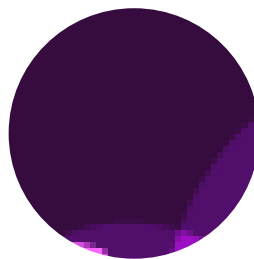


# The Rise of GP led transactions and Continuation Funds in Private Equity: 2024 Outlook

September 2024



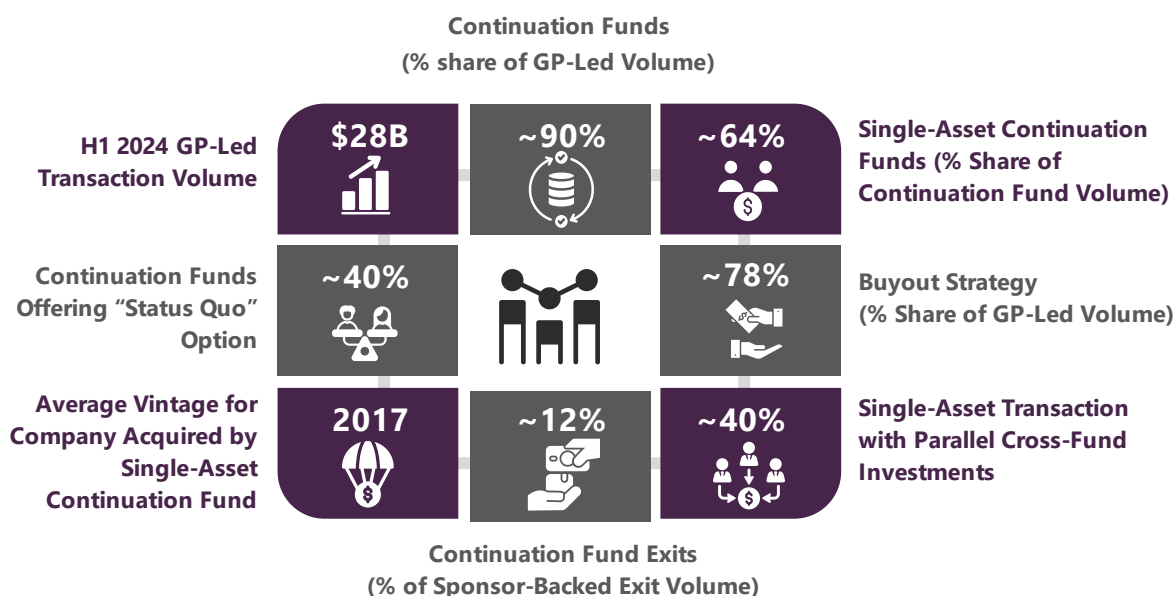
The PE landscape is undergoing a significant transformation with the rise of GP-led secondaries and continuation funds. As traditional exit routes face headwinds, these innovative mechanisms are transforming how General Partners (GPs) and Limited Partners (LPs) navigate liquidity and investment horizons. This blog explores the latest trends, compelling statistics, and future outlook, providing a comprehensive view of the evolving sector.

## Understanding GP-led Secondaries

GP-led secondaries refer to transactions where the General Partner (GP) of a PE fund arranges for the sale of the fund’s assets to a new investment vehicle. This approach often aims to provide liquidity to existing investors or extend the holding period of high performing assets.

Continuation funds are a specific subset, where assets are transferred to a new fund vehicle, allowing GPs to continue managing these assets beyond the original fund’s life. These mechanisms are reshaping the private equity landscape by providing flexible and innovative solutions to liquidity challenges.

## H1 2024 Key Statistics



Source: Jefferies– Global Secondary Market Review

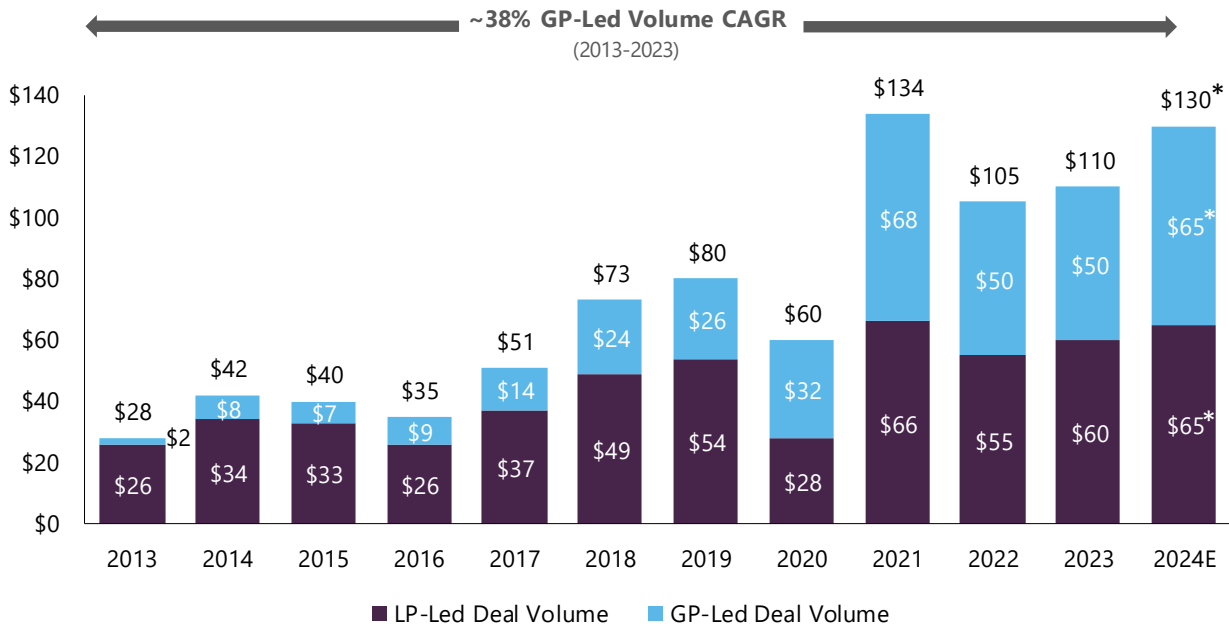
## Current Market Position

GP-led secondaries in PE have gained significant traction, positioning themselves as a crucial segment within the secondary market. The market for GP-led secondaries hit a record of \$68B in 1H of 2024 driven by high liquidity demands and strong pricing trends.

These funds made up 14% of global sponsor-backed exit volume in the first half of 2024, up from 21% in 2023 and 5% in 2021. This growth highlights the increasing mainstream adoption of continuation funds, which now play a critical role in providing liquidity while allowing GPs to retain assets longer.

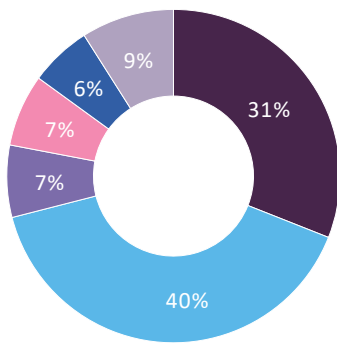
Despite the market challenges, including a tough exit environment and a slowdown in traditional M&A and IPO activities, the GP-led secondary market has demonstrated resilience.

Historical Secondary Market Volume (In Billions)

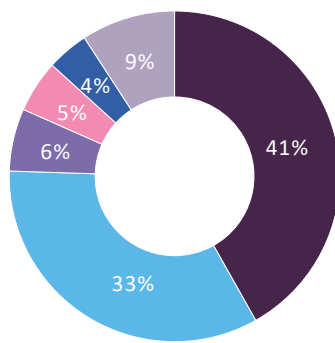


\*Estimated amount

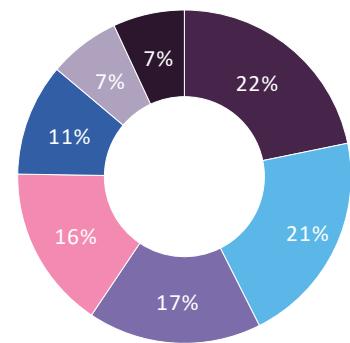
GP-Led Secondaries Percentage of Capital Invested (by Structure)



GP-Led Secondaries Percentage of Total Deal Closed (by Structure)



Single-Asset Continuation Fund Percentage of Capital Invested (by Sector)

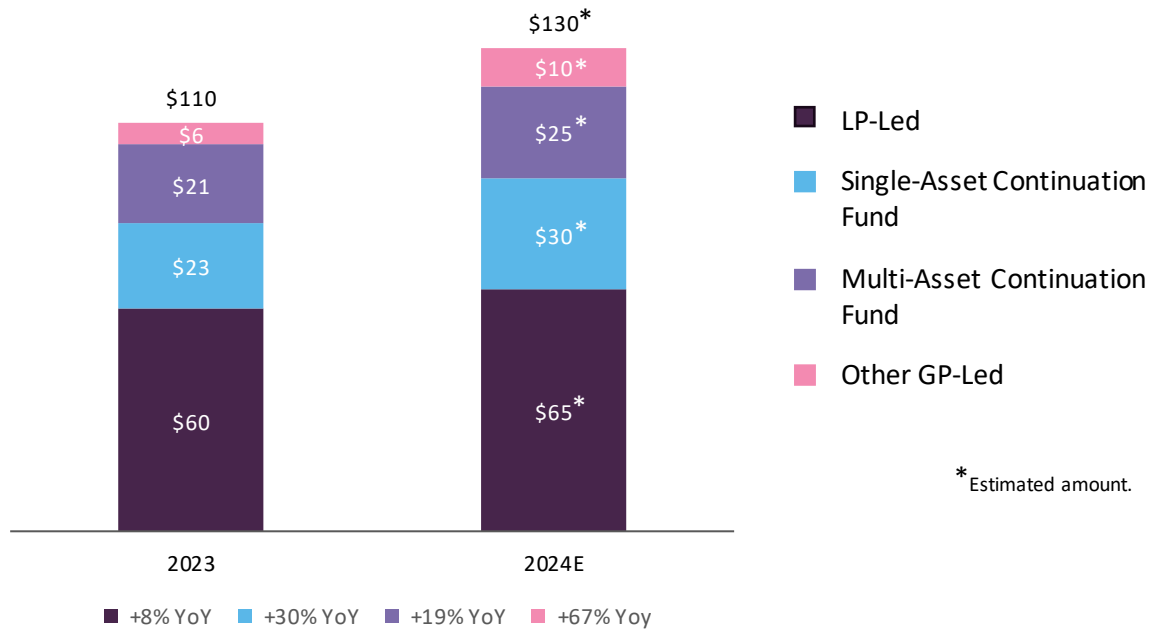


Source: William Blair Research 2024

**Recent Trends:**

1. **Surge in deal Volume:** There were ~400 GP-led secondary deals which represented 48% of the total market volume, The growth in the market was driven largely by asset sales (\$46B) and structured equity deals (\$6B) and the subsequent increase in single-asset and multi-asset continuation funds. This growth is a testament to the increasing adoption of these strategies by private equity firms.

**Market Volume Estimate (in Billions)**



Source: William Blair Research 2024

2. **Fundraising Boom:** Secondaries fundraising hit a record of \$84B in 2023, surpassing the combines total of 2021 and 2022. This surge highlights robust investor interest and a substantial accumulation of dry power, signalling strong future deal flow.
3. **Market Resilience:** While traditional exit routes like M&A and IPOs saw significant declines, the GP-led secondaries market demonstrated resilience, with a modest 24% drop from the peak volumes of 2021. This stability underscores the appeal of GP-led strategies in turbulent times.
4. **Resurgence in Secondary Pricing:** LP secondary market pricing experienced a robust recovery from decade-low levels in 2022, with pricing rebounding by 400 basis points to 85% of NAV (relative to 81% of NAV in 2022). This notable recovery was fuelled by rising public valuations (the S&P 500 index increased by 24% in 2023), but was tempered by a tepid distribution environment, with subdued M&A and IPO activity.

**Key Factors Driving Pricing Increases**

<b>Rising Public Valuation</b>	<ul style="list-style-type: none"> <li>• S&amp;P 50 index increased by - 24%</li> <li>• NASDAQ index increased by – 44%</li> </ul>	<b>Stabilizing Macro Environment</b>	<ul style="list-style-type: none"> <li>• Visibility towards Fed rate cuts</li> <li>• Possibility of a soft landing in the US</li> </ul>
<b>Younger Vintage Sold</b>	<ul style="list-style-type: none"> <li>• Youngest fund age in a decade (7years)</li> <li>• 46% of volume is &lt;5 years old</li> </ul>	<b>Increase in Available Capital</b>	<ul style="list-style-type: none"> <li>• &gt;\$95B raised by 5 buyers in 18 months</li> <li>• Capital overhang multiple of 2.3x</li> </ul>

Source: Jefferies– Global Secondary Market Review

## Driving Forces behind the Growth

### Several factors are propelling the rise of GP-led secondaries and continuation funds:

1. **Demand for liquidity:** LPs are increasingly seeking liquidity amid slower traditional exits and rising interest rates. The secondary market provides a vital outlet, enabling investors to manage their portfolios dynamically.
2. **Retention of High-Quality Assets:** GPs prefer to retain control over high-performing assets, especially when market conditions are not favourable for exits. Continuation of funds allows GPs to hold and manage these assets longer, optimizing return and aligning with investors' long-term interests.
3. **Investor Attraction:** The secondary market is attracting significant investor interest, as demonstrated by a 48.3% y-o-y increase in capital raised, due to favourable pricing and the potential for stable returns. This trend is reflected in increasing capital commitments and the growing number of funds dedicated to secondary transactions.

### Years-over-year funding changes by strategy (Trailing four quarters)

Strategy	Capital raised (US\$B)	YoY change
Private Equity	\$590.8	10.3%
Venture Capital	\$165.8	-40.9%
Real estate	\$95.6	-25.2%
Real assets	\$134.5	97.6%
Debt	\$169.9	-31.0%
Fund of funds	\$33.3	-41.9%
Secondaries	\$83.7	48.3%
Private Capital	\$1,273.6	-7.2%

Source: Pitchbook. Global fundraising activity as of March 31, 2024

4. **Supply - demand imbalance:** It was estimated that PE firms globally are sitting on \$3T of unrealized value in 28,000 unsold companies in 2023, and there was around \$176B of dry powder in the secondary market. With a substantial amount of dry powder- capital that has been raised but not yet deployed, investors are eager to find suitable opportunities. This puts pressure on increased competition, aggressive pricing strategy and more complex deal structures. Secondaries fundraising, which came to \$91B in 2023, is predicted to reach \$140B in 2024.
  - Blackstone announced a final close of \$22.2B on its ninth flagship secondaries fund in January. It also raised \$2.7B for its inaugural GP-led fund.
  - Additionally, Lexington Partners closed its tenth fund on \$22.7B, while Ardian remains in the market seeking more than \$20B for its latest secondaries offering
5. **Dual Track Processes:** It refers to a traditional sale process and a transaction involving a continuation fund. According to Mergermarket data, three North American assets sold to continuation funds since the start of 2023 were previously reported to have considered sale processes. In February 2021, Aterian Investment Partners mandated Baird to launch a sale process for Vander-Bend Manufacturing, a sale never materialized. In September 2023, Aterian raised a \$460M continuation fund for the assets supported by JPMorgan Global Alternatives, Hollyport Capital, and Blackstone.

















### Select Prominent Secondaries Deals:

- Kaiser Permanente offloaded \$5B worth portfolio:** The company sold its \$5B portfolio to Ardian, Apollo Global Management and Blackstone. This was one of the large LP sales that revived the secondaries market following the shutdown
- Alpine Investors Continuation fund worth \$3.4B:** The firm closed its \$3.4B fund for Apex Service Partners. The CV was backed by Blackstone strategic Partners, Lexington Partners HarbourVest Partners and Pantheon Alpine. Alpine also invested \$450M in its ninth flagship fund
- J-STAR Completed Japan’s first continuation fund:** The company strategically moved four waste treatment & recycling assets to a holding company named Renuis. It was backed by the company’s fifth flagship fund and a continuation vehicle, which received an aggregate capital commitment of \$126M, Neuberger Berman being the lead investor in the deal
- Ardian bought 20 LP fund interests:** CPP Investment sold 20 LP funds interests based out of North America & Europe to Ardian for \$1.5B
- Astorg raised \$1.5B Continuation Fund:** The Continuation Fund was established to acquire Normec which raised \$1.5B in partnership with CVC Secondary Partners, Pantheon, Lexington Partners and Eurazeo
- Clearlake’s single-asset continuation vehicle:** Clearlake Capital group is exploring another GP-led secondary transaction, by considering a single-asset continuation fund process to expand its Icon series of vehicles. The asset is Constant Contract, which was acquired by the company in partnership with Sirius Capital group for a \$400M deal three years back

### Forward Looking

#### Themes From 2023 and Expectation for 2024

The secondary market experienced a modest increase in volume in 2023, driven by strong buyout pricing, an improving macro backdrop, and record amounts of buy-side capital. The market is anticipated for a robust growth in 2024.

Year in Review	2022	2023	2024 Expectations	Year ahead
 <b>Total volume increase</b>	\$108B 	\$112B	\$140B+	<b>Volume Climbs</b> 
 <b>LP pricing increases</b>	81% of NAV 	81% of NAV	90%+ of NAV	<b>LP Pricing Progresses</b> 
 <b>GP-Led Volume Holds</b>	\$52B 	\$52B	\$65B+	<b>Increase in GP-Led Volume</b> 
 <b>Available Capital Increases</b>	\$225B 	\$225B	<2.0x Capital Overhang Multiple	<b>Deployment Outpaces Fundraising</b> 
 <b>Rise in \$1B+ Deals</b>	29 Deals 	34 Deals		<b>Increase in multi-billion \$ Deals</b> 

Source: Jefferies– Global Secondary Market Review

The momentum in GP-led secondaries and continuation funds is set to continue through 2024. Robust fundraising and accumulated dry powder will drive significant deal volumes. The flexibility and liquidity solutions offered by continuation funds make them an essential tool for private equity firms navigating current market challenges.

- On the LP-led side, LPs are expected to leverage innovative transaction structures like preferred equity, managed funds, and upside-sharing deals to navigate the market landscape.
- On the GP-led side, it is anticipated that sponsors will continue accessing the continuation fund market to generate exits as the IPO and M&A market remain challenged.

Multiple transactions exceeding \$3B which are fuelled by larger LPs and GPs tapping the market and substantial capital held by the large buyers is expected to rise. Moreover, as the economic landscape evolves, these mechanisms are likely to play an increasing central role in private equity strategies. The ability to provide liquidity while retaining control over valuable assets offers a compelling value proposition for both GPs and LPs.

## Conclusion

The rise of GP-led secondaries and continuation of funds make a pivotal evolution in the private equity sector. By offering innovating solutions to liquidity and asset management challenges, these mechanisms are reshaping investment strategies and providing new pathways for growth and expansion of these strategies will undoubtedly shape the future of private equity, offering exciting opportunities for investors and firms alike.

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