Secondaries Investor: The Secondaries Investor 50 – fundraisers belie difficult 2023
By Amy Carroll | September 1st, 2023

Our ranking of the biggest secondaries fundraisers reveals a market reaching an inflection point.

The fundraising environment is undeniably brutal right now. Total capital raised by private equity vehicles in the first half of this year fell to $315.5 billion, per affiliate title Private Equity International's H1 fundraising report, down from $395 billion in the previous six months. The number of funds to close in the first half almost halved from the same period in 2022.

The secondaries industry, however, is growing in popularity. In total, $37.2 billion was raised by secondaries firms in the first half – up 29 percent year on year, per data from Secondaries Investor. Meanwhile, secondaries' share of the overall private equity fundraising market climbed to 12 percent, compared with 5 percent a year prior.

Indeed, Blackstone Strategic Partners' Fund IX, which closed on $22.2 billion in January, is the largest secondaries fund ever raised. When combined with the $2.7 billion the firm has raised for its Strategic Partners GP Solutions vehicle, this secondaries juggernaut has helped the firm maintain its status as the number one secondaries manager by capital raised in this year's Secondaries Investor 50 ranking.

"While the fundraising market generally has been a challenge, LPs view secondaries as a particularly attractive opportunity right now," says Vladimir Colas, co-head of Ardian US and co-head of secondaries and primaries at Ardian. "That is driven, in part, by exceptional dealflow."

The firm holds on to second place in the ranking, largely due to a successful fundraising year with Ardian Secondary Fund IX.

SECONDARIES INVESTOR 50 2023

Search

2023	2022	Fund manager	Capital raised ($m)	Headquarters
1	1	Blackstone Strategic Partners	51,339	New York
2	2	Ardian	49,796	Paris
3	3	Goldman Sachs	32,938	New York
4	7	Lexington Partners	26,800	New York
5	5	LGT Capital Partners	21,115	Pfaeffikon
6	4	StepStone Group	20,358	La Jolla
7	11	HarbourVest Partners	18,162	Boston
8	8	Partners Group	16,579	Baar-Zug
9	-	Ares Management	16,134	Los Angeles
10	10	Pantheon	14,881	London

11	★	-	AlpInvest (The Carlyle Group)	12,998	Washington DC
12	⌃	14	Intermediate Capital Group	11,331	London
13	⌄	12	Hamilton Lane	10,678	Conshohocken
14	⌄	13	Coller Capital	10,461	London
15	⌃	16	Neuberger Berman Private Markets	10,106	New York
16	⌄	15	Glendower Capital	8,296	London
17	‹›	17	Portfolio Advisors	7,567	Darien
18	⌃	20	Altamar CAM Partners	5,324	Madrid
19	★	-	CBRE Investment Management	5,156	New York
20	⌄	19	Pomona Capital	4,857	New York
21	⌃	30	Banner Ridge Partners	4,847	New York
22	⌃	23	BlackRock	4,804	New York
23	⌄	21	Adams Street Partners	4,538	Chicago
24	‹›	24	Madison International Realty	4,173	New York
25	⌄	18	Committed Advisors SAS	4,155	Paris
26	⌄	22	Morgan Stanley Private Markets Solutions	3,886	New York
27	‹›	27	Northleaf Capital Partners	3,884	Toronto
28	⌄	25	Newbury Partners	3,447	Stamford
29	‹›	29	Stafford Capital Partners	3,373	London
30	⌄	26	Hollyport Capital	3,238	London
31	⌄	28	GCM Grosvenor	3,057	Chicago
32	⌃	35	Brookfield Asset Management	2,837	Toronto
33	★	-	TPG	2,680	Fort Worth
34	⌃	47	Kline Hill Partners	2,623	Greenwich
35	⌃	50	Industry Ventures	2,499	San Francisco
36	⌄	31	Montana Capital Partners	2,470	Baar-Zug
37	⌄	36	Schroders Capital	2,309	Zurich
38	★	-	NewView Capital	2,036	Burlingame
39	★	-	LSV Advisors	1,887	New York
40	★	-	Top Tier Capital Partners	1,815	San Francisco
41	⌄	37	Mercer Investments	1,770	Boston
42	⌄	38	Unigestion	1,658	Geneva
43	⌄	34	abrdn	1,564	Edinburgh
44	⌄	39	BGO Strategic Capital Partners	1,513	New York
45	⌄	33	PineBridge Investments	1,500	New York
46	★	-	New 2nd Capital	1,490	New York
47	⌄	42	W Capital Partners	1,456	New York
48	⌄	40	Commonfund Capital	1,399	Wilton
49	★	-	Revelation Partners	1,379	San Francisco
50	★	-	Cubera Private Equity	1,317	Oslo

⌃ Up　⌄ Down

‹› No change　★ New

Source: PEI

"The denominator effect means many institutional investors have found themselves overallocated to private equity," Colas adds. "Contrary to previous periods of volatility, however, these investors have not frozen activity and waited for the denominator effect to abate, but rather have made the decision to sell portions of their portfolios so that they can continue investing and take advantage of this current vintage. This deluge of dealflow has led to significant discounts, deferred payments and the ability to cherry-pick positions, all of which is deemed highly attractive."

Amyn Hassanally, a partner and global head of secondaries at Pantheon – which moved up by one place to number 10 in this year's ranking – agrees. "I think there is a general recognition across the industry that the secondaries market is an established and vital tool to help investors manage their portfolios, and it has gained even greater prominence at a time when distributions from portfolios have slowed dramatically, owing to the wider slowdown in exit markets.

"Capital call demands and re-up requests from private equity managers have not slowed to anywhere near the same degree, as managers continue to find opportunities to invest and continue to raise capital, especially given a generally more moderated valuation environment and a robust primary fundraising market. It is the combination of these factors occurring simultaneously that is resulting in increased secondaries dealflow of high-quality portfolios at attractive pricing."

Seeking specialisation

Just as the secondaries industry is drawing increased attention from the LP community, it is also evolving. Increased specialisation by strategy has become a more common feature of the market; in particular, some funds, including new entrants, are focusing more intently on GP-led.

Colas points to higher barriers of entry for LP-leds to explain this phenomenon. "LP-led secondaries require an extensive data base, GP relationships, and information on funds in order to be competitive, and so we are seeing fewer new entrants there."

However, while Blackstone's Strategic Partners Fund IX will primarily target LP portfolios, with a separate fund earmarked for GP-led deals, the majority of the secondaries players that feature in this year's ranking continue to operate across both markets. "Most managers include LP-led and GP-led secondaries in their strategy, although there are groups more focused on one or the other," says Ross Hamilton, managing director at Partners Group, which has climbed one spot to number eight in this year's SI 50.

"We are currently more weighted towards LP portfolios, which offer attractive relative value, diversification and cashflows, with GP-leds providing concentrated exposure to high conviction assets," Hamilton says. "GPs will increasingly use the secondaries market to extend ownership of their best-performing assets, and it is important for investors to have access to GP-leds via secondaries managers. However, funds that only target GP-leds will have high levels of concentration and will not benefit from the diversification and cashflow profile of LP portfolios."

Nate Walton, a partner and head of private equity secondaries in Ares Management's secondaries group – which sits at number nine in this year's ranking – also believes the diversification provided by LP stakes is highly complementary to a GP-led strategy. "We think we can achieve the best of both worlds, combining the compounding returns of GP-leds, which give you exposure to longer-duration, great-quality businesses, and overall returns akin to the primary market, alongside the diversification, cashflow generation and other risk-mitigation factors provided by secondaries. The majority of managers still focus on both strategies for those reasons."

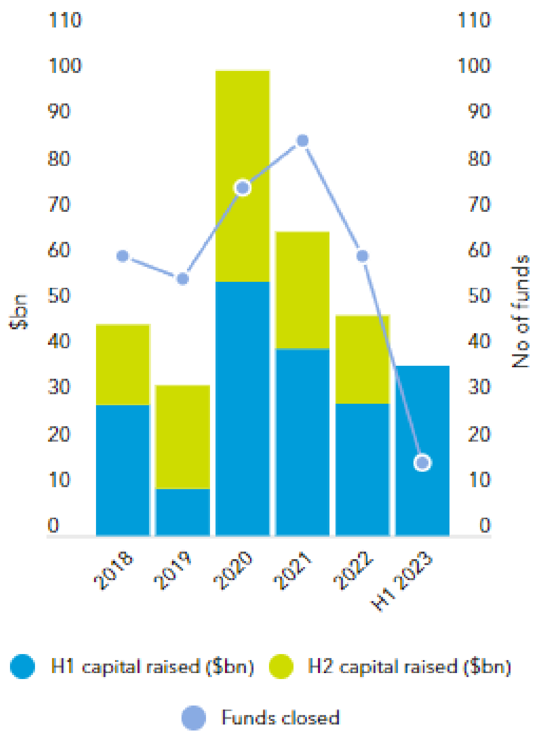
Colas, by contrast, believes specialisation is key. "It doesn't make sense to try and do everything. I think LPs prefer specialisation as it gives them greater control over their own exposure, particularly given that certain strategies can be more or less attractive at different points in the cycle. After all, in terms of risk/return profile, GP-led and LP-led secondaries are very different types of transaction."

Colas adds that we are also seeing specialisation in other areas. Ardian, for example, launched its infrastructure secondaries strategy eight years ago. Others have since followed suit, with secondaries funds being raised in real estate and private credit as well.

"The percentage of assets trading in the secondaries market in those asset classes is very low and so I expect to see more groups raising dedicated vehicles for those markets, as well as specialist funds focused on single assets, multi-asset GP-leds and diversified secondaries," Colas says. "In fact, my perception is that secondaries funds will become bigger than buyout funds in a relatively short period of time."

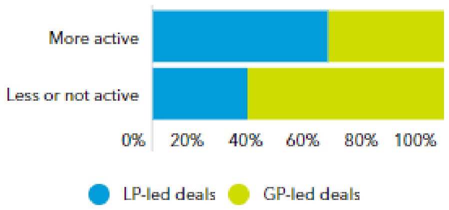
BACK FOR SECONDS

Secondaries fundraising is on the up following dips in 2021 and 2022



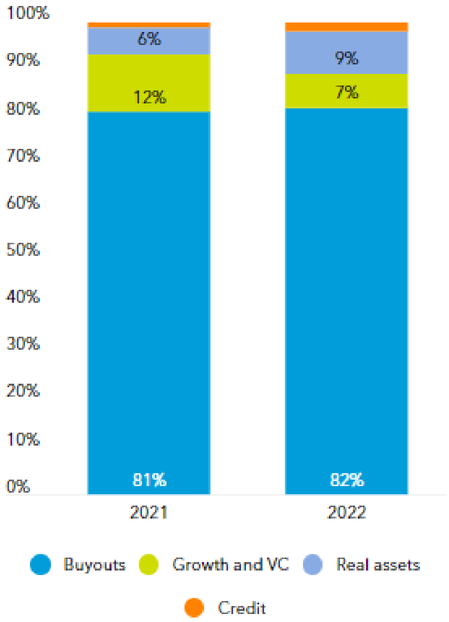
Source: Secondaries Investor

Do secondaries managers expect to be more active in LP-leds or GP-leds over the next 12 months? (%)



Source: Investec

GP-led transactions completed by strategy (%)



Source: Lazard

Consolidation efforts

The other trend that has dominated secondaries in recent years is consolidation. The market has seen a number of large private markets platforms acquire secondaries businesses in order to enter the space, including Ares' acquisition of Landmark Partners, which was completed in 2021. Incidentally, this led to Landmark disappearing from the SI 50 this year and being altogether replaced by Ares.

Other similar transactions include Franklin Templeton's acquisition of Lexington Partners; TPG's acquisition of Asia-focused secondaries firm NewQuest, which also resulted in NewQuest's disappearance from the SI 50 and TPG's first appearance in 33rd place; and CVC's tie up with Glendower. StepStone, number six in this year's ranking, has also been an active acquirer over the years.

$37.2bn
Capital raised by secondaries funds in H1 2023
29%
Increase on the same period a year prior

12%
Secondaries' share of the overall PE fundraising market

"Private markets platforms view secondaries as a route to scale," says Hamilton. "Buyout funds can achieve significant scale, but there are only a handful of mangers with funds over $15 billion. Private markets firms are therefore moving into adjacent areas such as credit and, increasingly, secondaries where the potential to scale is huge. Then it is a question of buy versus build. M&A is a fast way to get there, notwithstanding risks around integration and cultural fit. That said, there are groups that have been acquired and are operating fairly independently within their new parent organisation."

"We are seeing consolidation in private markets generally," adds Mark Benedetti, co-head of secondaries and primaries at Ardian and co-head of Ardian US. "We saw during covid that when times get tough LPs look to concentrate their relationships and do more with managers they know well. Furthermore, there are a lot of big institutional investors out there that already have too many relationships. We work with a major state pension plan, for example, that has more than 400 fund commitments on its balance sheet and just two people to manage them. That is unrealistic. Investors are therefore looking for groups they can work with across multiple strategies."

Indeed, while the average Ardian client was invested in three products five years ago, that has now increased to more than four. "I think we will see fewer and fewer standalone secondaries firms. Those that have not already joined bigger groups will do so," Benedetti explains.

"As a result, there will be a bifurcation in the market, with big household names managing $100 billion-plus of AUM across multiple strategies and then highly specialised, niche, mono-product firms at the other end of the spectrum. But I believe there will be a lot of consolidation in between."

<u>Under capitalisation</u>

Despite all this frenzied activity, market participants still believe that supply/demand dynamics fall in their favour. "There is well over $100 billion of dry powder in the secondaries market, which is relatively small given the scale of the opportunity," says Hamilton.

Walton anticipates continued undercapitalisation of the market while "the supply of investment opportunities grows from multiple sources".

"LP-leds will continue to proliferate based on the overall NAV growth held within private markets. Meanwhile, the growing desire among GPs to pursue GP-leds is driving additional dealflow… Finally, the structured market, which currently accounts for around 10 percent of private equity secondaries, is also expanding as GPs seek growth capital for a multitude of reasons."

"Secondaries is probably the most undercapitalised area of private equity"
Vladimir Colas
Ardian

Indeed, projections for the secondaries market this year fall somewhere between $100 billion and $125 billion. "It is not unrealistic to think the market could reach $200 billion in the next three to five years," Walton says. "Meanwhile, the estimated available capital for secondaries is only around $200 billion. You generally want a market to have at least two to three years of dry powder and, given that secondaries capital tends to be drawn down quickly, that means that overall capital raised will need to approximately double to meet the market opportunity."

"Secondaries is probably the most undercapitalised area of private equity," agrees Colas. "Most of the large secondaries players, including ourselves, have either recently raised or are raising new funds, but that still only leaves around $130 billion of dry powder in the market. [That's] equivalent to a year's worth of transactions."

<u>*Methodology*</u>

The 2023 Secondaries Investor 50 ranking is based on the amount of dedicated secondaries capital raised for funds that closed between 1 January 2018 and 30 June 2023.

What counts?
Structures: Limited partnerships; co-investment funds; separate accounts; capital raised by secondaries firms that happen to be publicly traded; and seed capital and GP commitments.

Strategies: Private equity secondaries; real estate secondaries; infrastructure secondaries; real assets secondaries; dedicated direct secondaries funds; and secondaries-specific capital raised by funds of funds.

What doesn't count?
Direct private funds (private equity, real estate or infrastructure); dedicated preferred equity funds; hedge funds; opportunistic capital raises; deal-by-deal capital raises; PIPE investments; debt funds, including mezzanine funds; leverage; and soft-circle commitments.

Definitions
Secondaries: For purposes of the SI 50, the definition of 'secondaries capital' is capital raised for a dedicated programme of investing directly into the secondaries market. This includes equity capital for diversified private equity, real estate, buyout, growth equity, venture capital and turnaround or control-orientated distressed secondaries investment opportunities.

Capital raised: This refers to capital definitively committed to a secondaries investment programme. In the case of a fundraise, it means the fund has had a final or official interim close after 1 January 2018. We may count the full amount of a fund if it has a close after this date, and we may count the full amount of an interim close (a real one, not a 'soft circle') that has occurred recently, even if no official announcement has been made. We also count capital raised through co-investment vehicles.

***