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GP-Led Secondaries

Sizing the market for exits to continuation vehicles

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Key takeaways

- GP-led secondary exit value has more than doubled over the past five years while exit counts have risen by even more, from 16 transactions in 2020 to 89 so far in 2024. Over the past two years, we have seen valuation multiples drop, resulting in GPs not wanting to sell some of their most prized assets and instead rolling them into continuation vehicles. GP-led secondaries are on track for a record year, pacing to finish the year with an exit value between $50 billion and $60 billion.

- GP-led secondaries are growing fast in an exit market that has been declining since 2021. GP-led secondaries went from 0.6% of total global PE exit count to 3.8% in five years and from roughly 2.7% of total global exit value to 7.2% in the same period.

- From 2018 to Q3 2024, the average GP-led secondary exit value was $838 million while the median was closer to $500 million. This is substantially higher than the average PE exit size of $699 million and the median PE exit size of $218 million across all exit types. Assets exited to CVs tend to be larger because a) the GP has usually grown their valuations over several years and b) they tend to be the crown jewel assets of the portfolios.

- North America has been the dominant player in GP-led secondaries over the past five years, accounting for over half of global activity. The B2B sector has dominated GP-led secondaries, accounting for 32.2% of exit count. However, in 2024, we have seen a rise in IT GP-leds with 20 exits YTD.

- Over the past five years of GP-led secondary exits, over 50% of companies have been held for five to seven years. This is consistent with the notion of trophy assets, as GPs start looking to crystallize their distributions from years five to seven. Certain GP-leds occur at later stages of a fund's life, with roughly 25% happening after year 10.

- In our analyst note Private Capital's Path to $20 Trillion, we forecast that secondaries as an asset class will grow to become a $700 billion industry by 2028, up from $500 billion in 2022.[1] Extrapolating for GP-leds only, we expect they will be a $70 billion market by 2028. In our base-case scenario that assumes a 10% market share, this represents a roughly 5.8% CAGR between 2022 and 2028. In our bull case, assuming 15% market share, GP-led secondaries AUM reaches $105 billion by 2028 at a 13.2% CAGR.

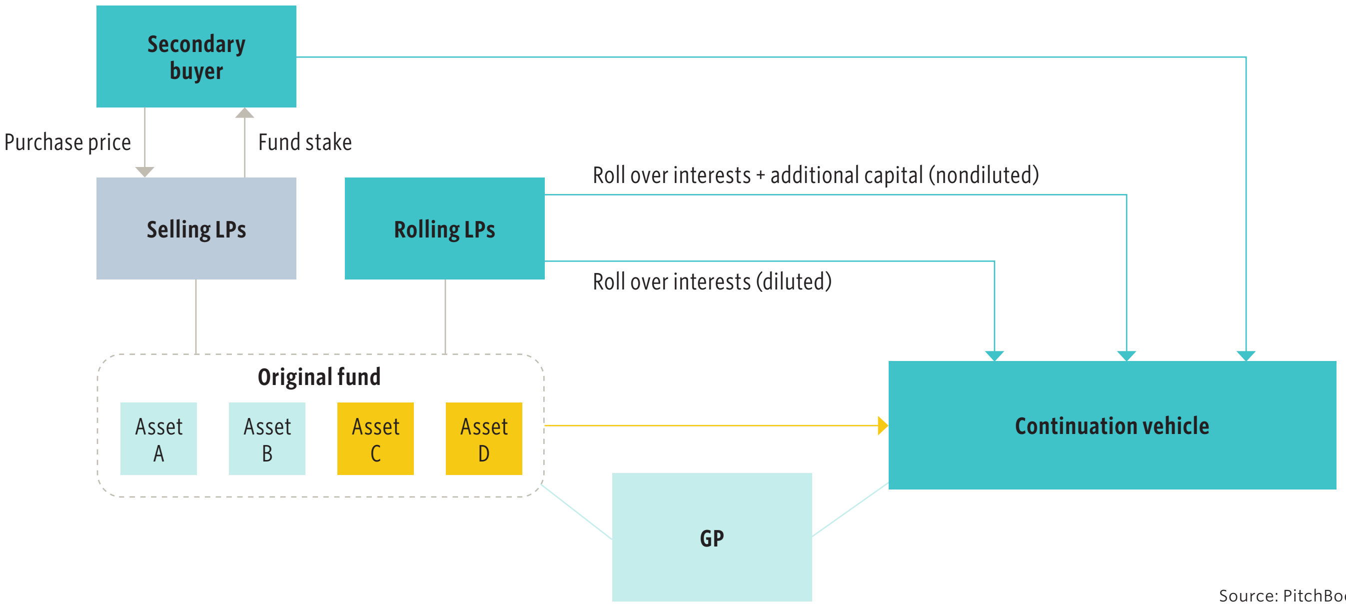
1: This figure includes PE, VC, private debt, real estate, and real assets secondaries.

Introduction

In the latest cycle of monetary tightening from 2022 to 2024, a correction in valuations in the markets led to a sharper slowdown in exits relative to deals. PE-backed public listings became scarce, sponsor-to-sponsor acquisitions were more expensive to execute due to higher borrowing costs, and corporates were squeezed for cash from the lower valuations and higher financing costs. This led PE sponsors to look elsewhere for exit liquidity, and thus emerged the solution of secondaries. Within secondaries, we distinguish LP-led secondaries from GP-led ones.

A GP-led secondary (GP-led) is an exit liquidity event triggered by the GP, allowing for all parties to benefit if well executed. The GP-led secondary will roll one or several assets into a new dedicated fund (usually called a continuation fund). The assets will be sold at a price set by the GP, and the GP will give LPs the option to a) sell their stake and exit, b) roll their stake into the new fund, or c) roll their stake and agree to commit more capital to avoid dilution. The new continuation vehicle (CV) will have its own limited partner agreement, financial terms, and timeline, operating independently of the previous fund. From the GP's perspective, these assets are often "trophy assets" that the GP wants to continue holding but may not be able to do so in the original fund because it may be looking to unwind and distribute capital back to LPs. Another reason may be that the market is in a downturn and the GP expects a price recovery if it continues holding. The GP also has an option to sell part of its stake. For further learnings on GP-led secondaries and how they fit within the overall secondaries market, please read our analyst note The Evolution of Private Market Secondaries.

Continuation vehicle flowchart



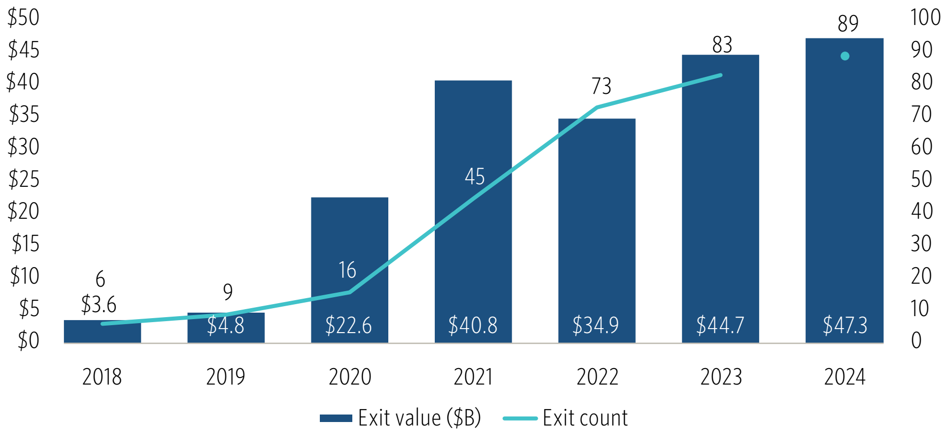
Source: PitchBook

In this note, we will focus on GP-led secondaries, specifically exits to CVs. We will evaluate the size of the GP-led secondary market and how GP-leds impact the PE landscape. Our analysis will showcase characteristics of GP-leds, including typical exit sizes, sectors, regional trends, and holding periods associated with the strategy. Finally, we will provide forecasts for GP-led secondaries based on data we have captured over several years.

The rise of GP-led secondaries as a source of exit liquidity

GP-led secondary exit value has more than doubled over the past five years while exit counts have risen by even more, from 16 transactions in 2020 to 89 so far in 2024. Over the past two years, we have seen valuation multiples for portfolio companies drop 20% to 30% due to the rise in the discount factor. This resulted in GPs not wanting to sell some of their most prized assets and instead hold them and roll them into CVs. GP-led secondaries are on track for a record year of exit activity, pacing to finish the year with an exit value between $50 billion and $60 billion.

PE GP-led secondary exit activity



Source: PitchBook • Geography: Global • As of October 31, 2024

We seek to showcase our data but want to be transparent about our methodology. Not all GP-led secondary exits that we capture have a known exit value. As such, we have determined the median GP-led secondary exit value across our data and set the unknown exit values at $500 million. This also roughly corresponds to the median exit value for all PE exits. We believe this figure remains conservative given these assets are often trophy assets and as such tend to be priced higher than the average exit.

How do GP-led secondaries affect various stakeholders?

Three main stakeholders are affected in a secondary transaction:

1. **The GP:** Usually outlines the deal terms and coordinates any exits/entries from LPs. The GP can also receive some carried interest from the exit from the original fund while being the GP of the new fund.

2. **The LPs:** Are offered a liquidity event that they can exercise if they wish or they can jump on board the CV. The Institutional Limited Partners Association (ILPA) outlines best practices for how these transactions should be structured to allow plenty of time for LPs and their investment committees to make a decision.

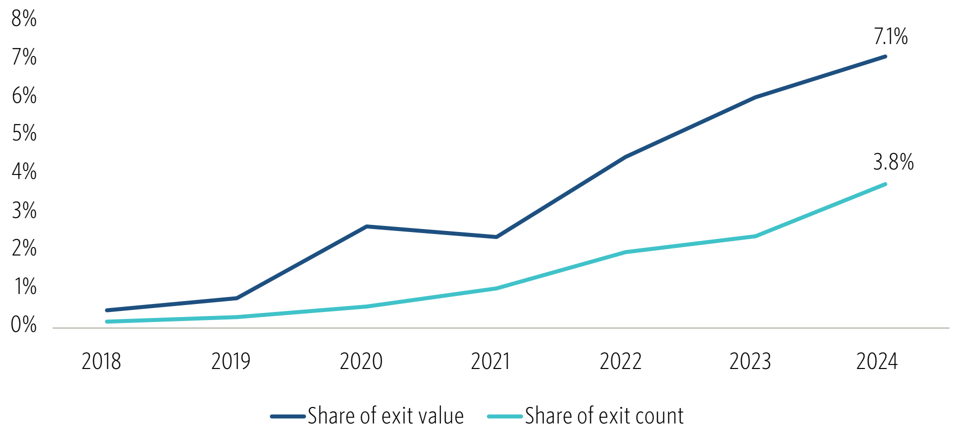
3. **The portfolio companies:** Remain largely unaffected by the transaction given the GP remains the same, and they are unaffected by LP changes. Having said this, often the CV will raise further commitments to continue supporting the companies.

In 2024, Normec was sold through a GP-led secondary sale from Astorg VII into Astorg Normec Continuation Fund. The CV raised €1.4 billion from investors such as CVC Secondary Partners, Pantheon, Lexington Partners, and Eurazeo. Astorg VII bought Normec from Summit Partners in 2020 for €350 million and grew the business fourfold. From our point of view, Normec has grown into a pan-European independent testing, inspection, certification & compliance player in part thanks to the more than 40 bolt-on acquisitions that were made by the GP. This was a case of a crown jewel asset where Astorg knew it had increased the company valuation significantly but still believed there was substantial upside. It allowed its fund VIII as well as certain exiting LPs to crystallize on that fourfold return while allowing new investors to join.

How large is the market for GP-led secondaries compared with the rest of the exit market?

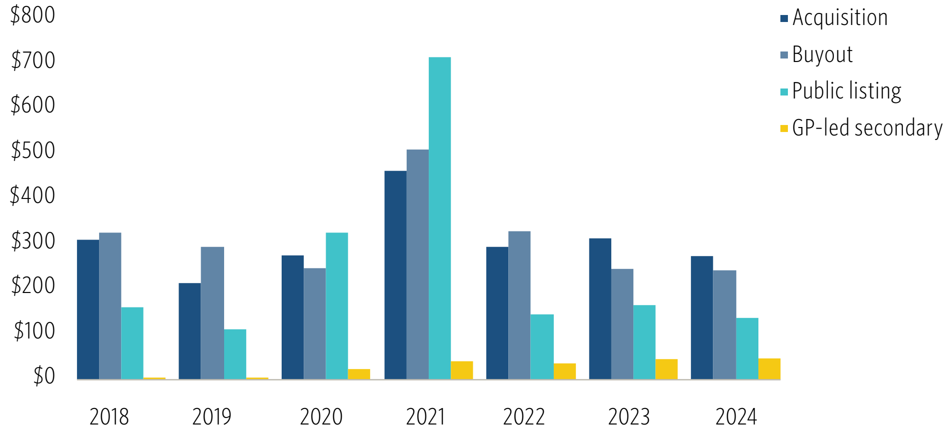
GP-led secondaries are growing fast in an exit market that has been declining since peaking in 2021. GP-led secondaries went from 0.6% of total global PE exit count to 3.8% in five years. They have gone from roughly 2.7% of total global PE exit value in 2020 to 7.1% so far in 2024. Public listing, buyout, and corporate acquisition exit activity has been shrinking as we await a recovery in the exit market, which is often dictated by wider macroeconomic conditions.

GP-led secondary exit activity as a share of all PE exit activity



Source: PitchBook • Geography: Global • As of October 31, 2024

PE exit value ($B) by type



Source: PitchBook • Geography: Global • As of October 31, 2024

GP-led secondaries characteristics

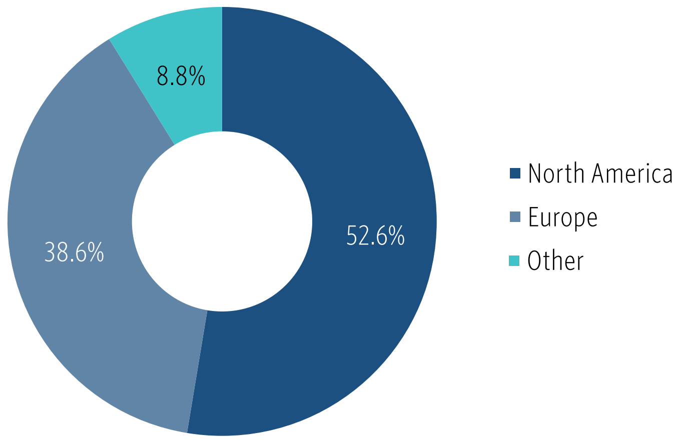
Size

For GP-led secondaries exits with a known value, the average exit value is $838 million while the median sits closer to $500 million. This includes exits from 2018 to Q3 2024. For context, during the same period, the average PE exit size was $699 million and the median was $218 million across all exit types. It is clear that exits to continuation vehicles tend to be larger. Exit data can have a slight bias toward larger exits, which are more publicized than smaller deals, which may not have an assigned exit value. Therefore, averages can be skewed upward. However, we believe assets exited to CVs tend to be larger because a) the GP has usually grown their valuations over several years and b) they tend to be the crown jewel assets of the portfolios and the GP may not want to roll minor assets into CVs. With time, as GP-leds become more mainstream, we expect exit values to increase as valuations improve and megafunds supplying capital become larger. The largest GP-led secondary YTD saw KSL Capital Partners close a $3 billion CV for Alterra Mountain Company.

Regional split

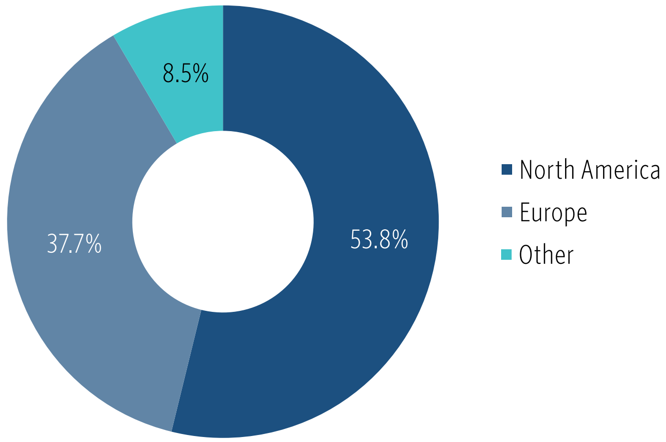
North America has been the dominant player in GP-led secondaries over the past five years, accounting for over half of the activity globally. 52.6% of GP-led count and 53.8% of GP-led value involve North American-headquartered portfolio companies that are being rolled into a CV. Europe accounted for roughly 38% of both count and value. However, this does not take into account where the GP is headquartered or where some of the new or existing LPs are based. This is in line with the regional splits of PE's global AUM given North America tends to account for roughly 60%. In fact, the most successful GP-led secondaries tend to be initiated by the more experienced GPs in the industry, those who have earned the confidence of their LPs over the years and can reassure them that the GP-led will benefit all parties involved and represent an accurate fair value of the asset(s). GP-leds require good existing relationships with current LPs, upcoming LPs, and also lawyers who help structure these deals and ensure a smooth transaction.

Share of PE GP-led secondary exit count by region (2020-2024)



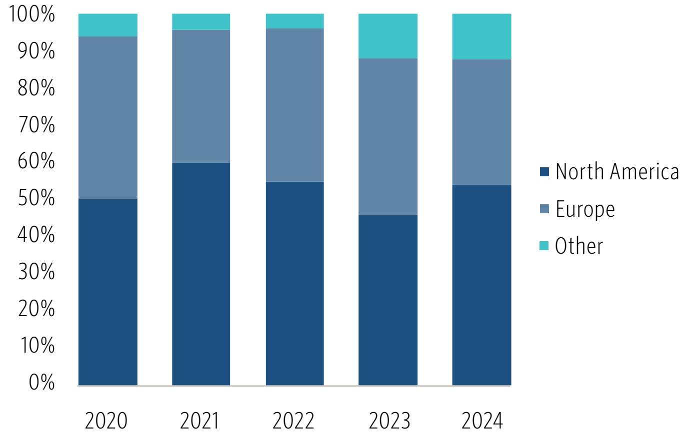
Source: PitchBook • Geography: Global • As of October 31, 2024

Share of PE GP-led secondary exit value by region (2020-2024)



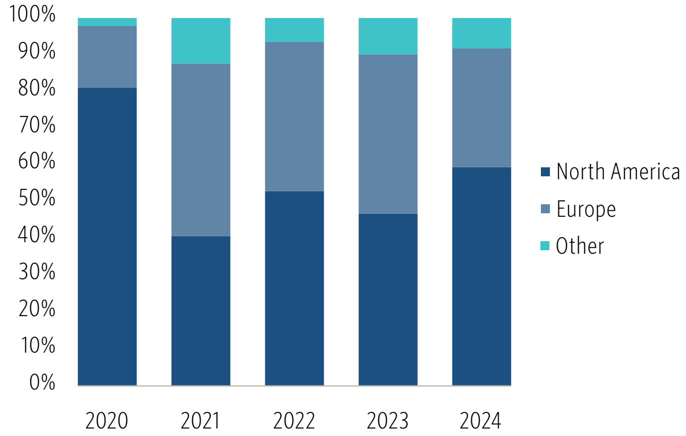
Source: PitchBook • Geography: Global • As of October 31, 2024

Share of PE GP-led secondary exit count by region



Source: PitchBook • Geography: Global • As of October 31, 2024

Share of PE GP-led secondary exit value by region

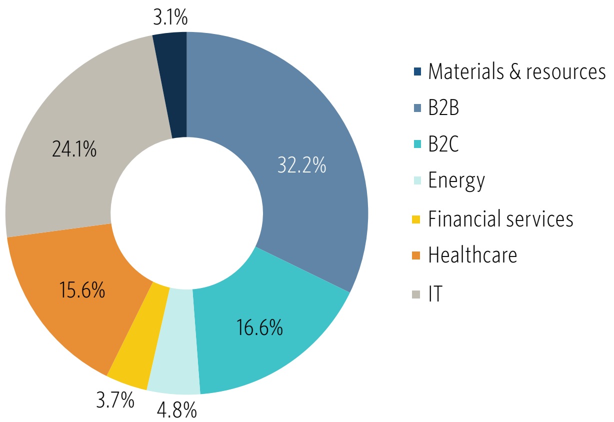


Source: PitchBook • Geography: Global • As of October 31, 2024

Sector split

Over the past five years, the B2B sector has dominated GP-led secondaries, accounting for 32.2% of exit count, followed by IT (24.1%) and B2C (16.6%). In 2024, we have seen a rise in IT GP-leds with 20 exits YTD, a record year for the sector. As tech valuations recover after a tough two years under higher rates, GPs are most likely not willing to sell some of these assets at lower valuations and have opted instead to roll them into CVs. For instance, Datasite, a US-based M&A software platform, has been rolled into a CV by its GP CapVest. Although the exit size was not disclosed, we are able to see the bigger picture with the activity in the sector. Datasite operates as a subscription-service data provider to the financial industry, and there has been increased activity within this sector with Preqin being acquired by BlackRock, AlphaSense acquiring Tegus, and Macrobond Financial going through a sponsor-to-sponsor acquisition. Given the consolidation we are seeing within data providers, asset owners may want to hold on for longer, especially if they are well placed to capitalize on the sector consolidation.

Share of PE GP-led secondary exit count by sector (2020-2024)



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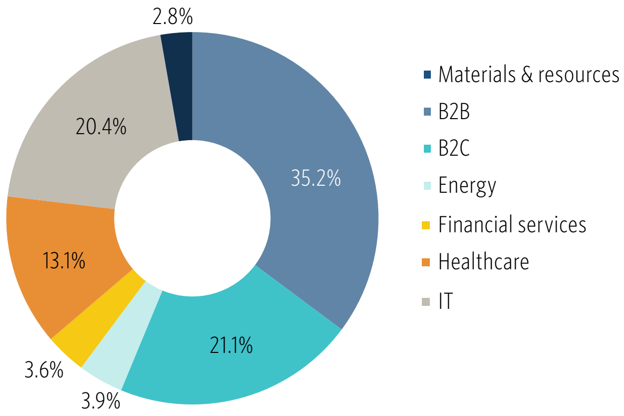
Share of PE GP-led secondary exit value by sector (2020-2024)



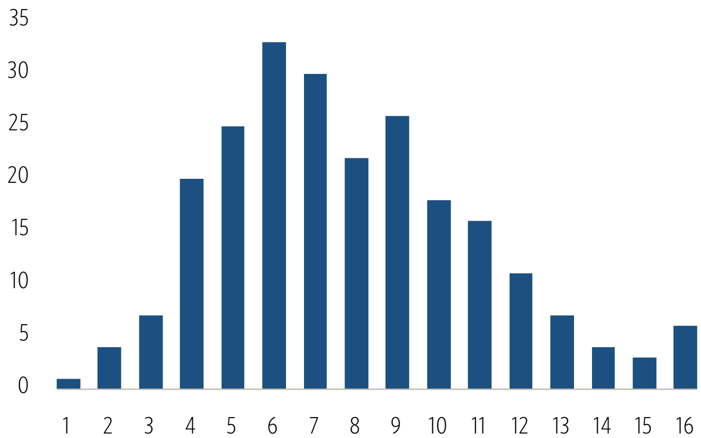
Source: PitchBook • Geography: Global • As of October 31, 2024

Age

Over the past five years of GP-led secondary exits, over 50% of the companies have been held for five to seven years. Similarly, 38% of companies being rolled into CVs tend to be sold when the fund is five to seven years old. This is consistent with the approach of the rest of the industry, as GPs start looking to realize their distributions from years five to seven. It is during this time that GPs will consider which of their assets are best in class and whether there is further upside potential in rolling these assets into a CV.

Certain GP-leds occur at later stages of a fund's life, with roughly 25% happening after year 10. Those transactions may raise more eyebrows as to whether they are trophy assets or rather assets the GP has been unable to sell. Further due diligence is advised the longer the asset has been held by the original fund. These assets would also most likely be sold at higher discounts to net asset value than premium assets, which will be closer to par, as explained in the "Discounts" section in our analyst note The Evolution of Private Market Secondaries.

PE GP-led secondary exit count by age of fund (years) during exit



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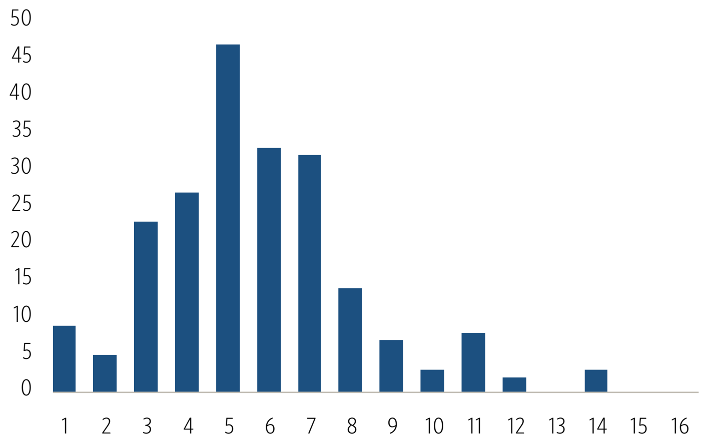
PE GP-led secondary exit count by age of investment (years) during exit



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GP-led secondaries forecasts

We anticipate GP-led secondaries to continue growing as part of the wider secondaries market, which is being fueled not only by specialized funds investing only in secondaries, such as Ardian Secondary VIII or Blackstone Secondaries IX, but also by the rise of firms dedicated to secondaries, such as Lexington Capital Partners or Coller Capital. The formation of these specialized funds underscores that secondaries are here to stay even if other exit routes recover. In our analyst note Private Capital's Path to $20 Trillion, we forecast that secondaries as an asset class will grow to become a $700 billion industry by 2028, up from $500 billion in 2022. (Note that these figures include secondaries for PE, VC, private debt, real estate, and real assets.) **Extrapolating for GP-leds only, with the assumption that GP-leds still represent 10% of the total secondaries market, we expect GP-leds will be a $70 billion market by 2028, representing a roughly 5.8% CAGR between 2022 and 2028.** In our opinion, this is a conservative figure given the key assumption that GP-leds still represent 10% of total secondaries by the end of 2028. If current momentum continues, we could expect GP-leds to take a significantly higher portion of the secondaries market, especially as opposed to LP-leds, which have seen their share of PE secondaries fall in recent years. **A 15% secondaries share would value GP-led secondaries AUM at $105 billion by 2028, or a 13.2% CAGR.** For comparison, PJT Park Hill estimates a $101 billion GP-led AUM by 2028 with a 14% CAGR.[2]

GP-led secondaries have risen in popularity in the past couple of years, offering liquidity solutions to LPs and GPs alike in an exit market that has decreased overall liquidity due to higher-for-longer rates. Better guidelines around structuring GP-leds to align interests for all parties have also played a significant role, notably with the ILPA guidance published in April 2019. We expect GP-leds to remain a small section of the exit market but grow nonetheless as the structure becomes more readily available and mainstream to execute. With time, our data collection will also improve as we continue to follow developing trends within GP-led secondaries.

2: "Q1 2024 Secondary Market Insight," PJT Park Hill, April 2024.