TRIAGO

Secondary Market Insights – April 2020

NAVIGATING THE SECONDARY MARKET DURING THE COVID-19 CRISIS

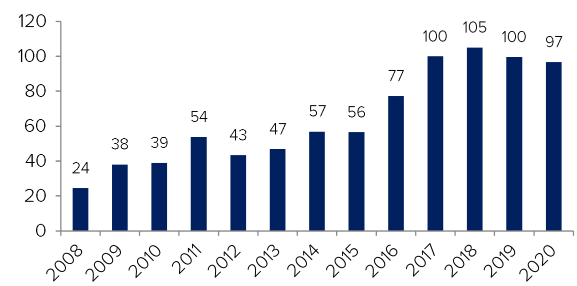
Following consecutive years of record-setting transaction volume, the COVID-19 pandemic has created new challenges for secondary market participants. The rapid decrease in equity valuations - reflecting a sudden, sharp rise in economic uncertainty - warrants more prudent pricing for secondary interests. However, most buyers have access to near-peak levels of dry powder as well as cheap leverage, and will aim to take advantage of deals that offer greater potential upside (i.e. larger relative discounts to adjusted net asset value), albeit with increased risk. All things considered, market dynamics will likely generate higher competition and stronger pricing than during 2008's global financial crisis (GFC).

Over the past few weeks, we've had many conversations with market participants about the impact of COVID-19. The following observations provide a recap of these conversations and include takeaways from recent Triago-led transactions.

Observation #1 – Buyers Remain "Open for Business"

- With historically high levels of dry powder available to secondary buyers ($140B+ including "Non-Traditional" buyers), the vast majority of secondary buyers are still actively underwriting potential transactions.
- That being said, before finalizing transactions, most buyers and sellers are waiting for guidance from GPs concerning COVID-19 impacts and related markdowns. A portion of buyers stand ready to pursue "distressed" opportunities with built-in margins of safety derived by large discounts. Others are focused on highly unfunded positions where pricing consensus is more likely.

Secondary Dry Powder* ($B)



Source: Triago

*Does not include capital from SMAs and other "Non-Traditional" secondary buyers. With these additions, the effective secondary dry powder is currently well over $140B.

Observation #2 – Price Deterioration

- Given the equity market downturn and ongoing economic uncertainty, pricing has clearly weakened off of pre-COVID-19 reference dates (Q3 or Q4 2019). However, pricing has not fallen to the same extent as the decline in public markets. The level of price deterioration is largely dependent on asset quality, sector exposure, cash flow stability and level of debt.
- Secondary pricing levels for the rest of the year will depend on the pace of economic recovery and the degree to which GPs revalue their portfolios at upcoming reference dates (Q1 and Q2 2020 in particular).

Observation #3 – Fewer Bids and Greater Dispersion

- Buyers are increasingly selective during this time, only submitting indicative bids for relatively high-quality assets. Such assets include long-coveted funds that may only surface as potential acquisitions during the crisis. Lower-quality assets are unlikely to receive any demand.
- The secondary market is notoriously inefficient, and we have seen an even greater increase in price dispersion through recent processes. Flow-name funds (vehicles that regularly trade) that previously traded at established pricing (within a ~10-15% range), now see offer spreads as wide as 30%.

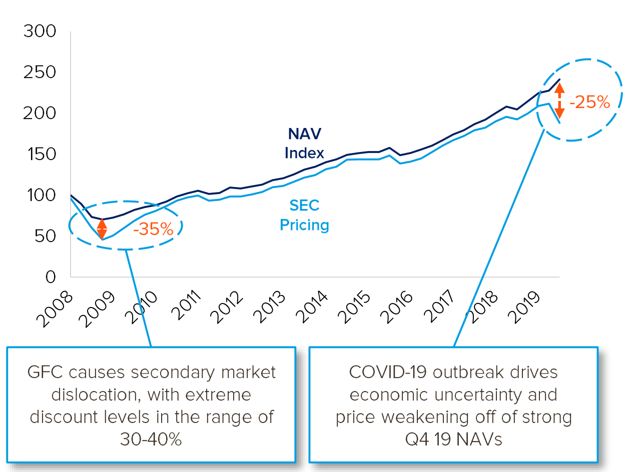
LESSONS FROM THE PAST

The secondary market suffered a major dislocation in the wake of the GFC. The GFC significantly altered the sentiment of market participants, resulting in volume growth that lagged well behind the pace of economic expansion in the post-crisis era. This time should be different.

Compared to 2008, the secondary market is better positioned for a swift recovery. Substantial growth in recent years has propelled the institutionalization of market dynamics, buyers hold at least 4x the amount of dry powder they did in 2008, and sellers are notably more sophisticated (e.g. less likely to sell in a market trough).

These market developments, coupled with a likely surge in sellers as 2020 progresses, could drive record levels of volume off of Q1 & Q2 2020 reference dates. Market dynamics may shift in favor of buyers over sellers, but not to the extent we saw after the GFC.

NAV Evolution vs. Secondary Pricing



Source: Triago

ABOUT TRIAGO'S SECONDARY ADVISORY PRACTICE

Triago offers a unique approach to secondary market transactions, capitalizing on 28 years of expertise and a broad, global network of buyers that spans beyond secondary specialists. Our team provides extensive hands-on diligence and execution support at every stage of the transaction process.

3,500+ fund interests transferred across various strategies within private equity, venture capital, and real assets

90%+ of portfolios brought to market by Triago have resulted in a completed transaction

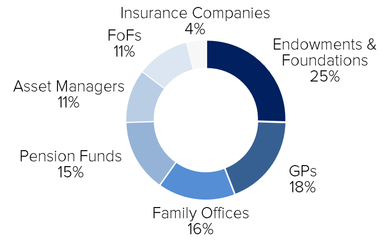
250+ LP clients worldwide, 100% sell-side advisory

$3B+ in annual transaction volume across 20 - 30 clients

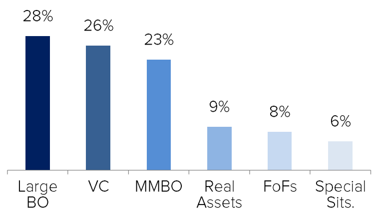
$10 - $500M+ range of deal sizes

28 years in the market, during which Triago has developed expertise and longstanding relationships

Seller Type



Funds Transferred



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