

Secondaries

Seasoned and quality assets at a discount

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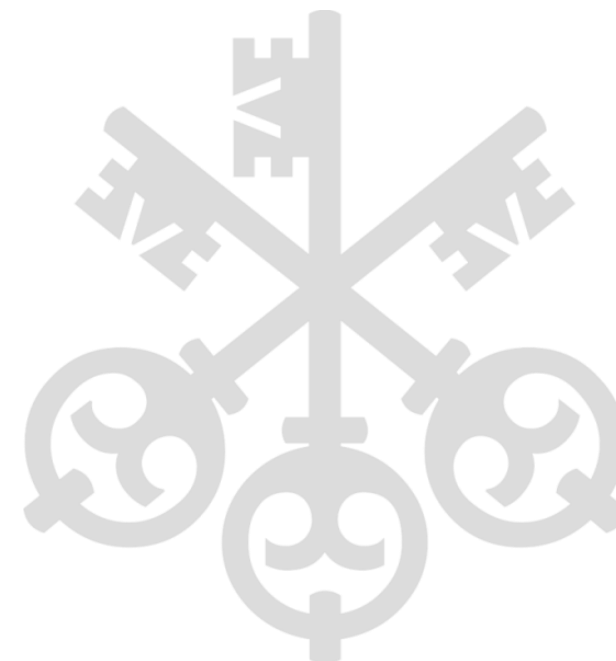
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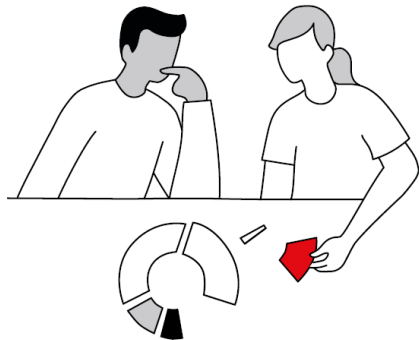
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Secondaries

Views

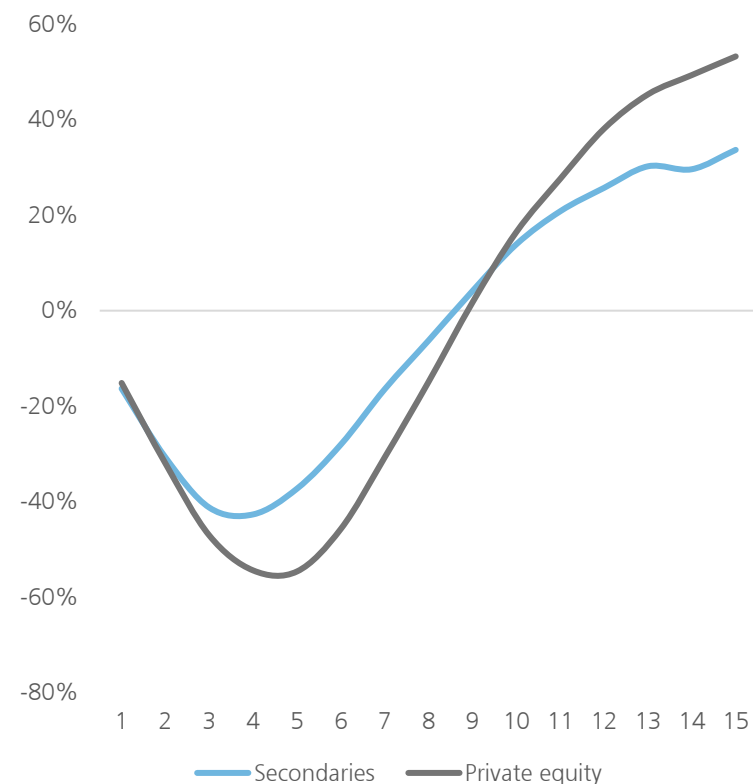


- For both investors new to private markets and those more experienced with the asset class, we think adding secondary exposure can add an efficient source of diversification with a lower dispersion of return than primary buyout funds. Secondaries typically offer diversified exposure across regions, strategies and vintage years and as managers target more mature fund stakes and assets, investors would typically see distributions more quickly than compared to primary funds. These can be valuable characteristics when building up a private market portfolio, in our view.
- **2023 was an active year for secondaries.** It was the only private strategy to attract additional capital, with fundraising rising 18% YoY. Transaction volumes also increased to USD 112 bn as pricing conditions improved. According to Jefferies data, discounts to NAV narrowed to reach 15% on average at the end of 2023, compared to 20% at the end of 2022. Buyers preferred younger vintages with higher potential for upside, which sold at premium compared to older vintages which are likely to see delays in distribution. Not all strategies are equal, however. While buyout secondaries saw meaningful repricing, buyers remained concerned about the outlook for real estate and venture capital, which translated into steeper discounts.
- **Regionally**, North America dominates with near 70% of the market, while Asian LP stakes saw a moderate increase in demand. This however came at the cost of steep discounts, nearing 40%.
- In 2024 we **continue to recommend allocations to secondaries**. Increased buyer interest and ongoing distribution delays should drive LP-led volumes higher. Discounts remain attractive and above historic norms. As GPs seek realizations, we also think GP-led secondaries will likely accelerate over the year potentially offering a good opportunity to secure quality assets.
- Investors should be aware of the **risks** of secondaries compared to primary private market funds, including a typically longer fund life for secondaries funds, which can add drag to the IRR performance, and leverage on fund and/or deal level. Investors should aim to select reputable managers with the ability to underwrite and secure participation in quality deals and potential access to high-performing assets at reasonable discounts.

The case for secondaries in a portfolio

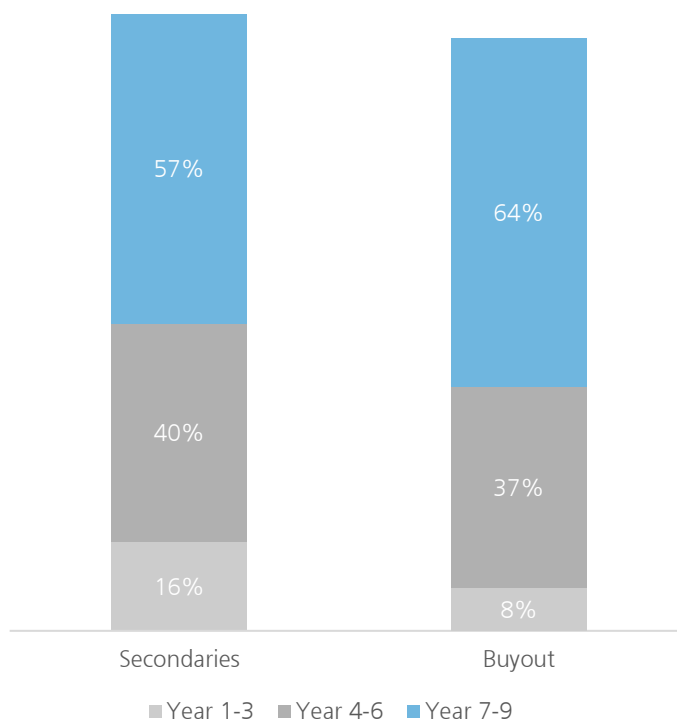
Allocating to secondary funds **can mitigate an investor's J-curve...**

Average cumulative net cash flow, % of fund size



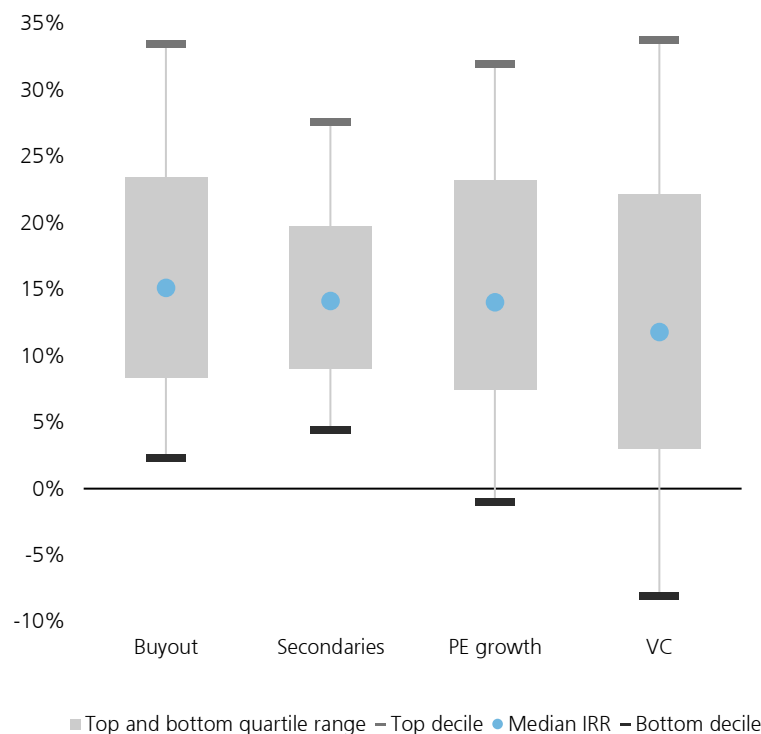
... as LPs generally see **distributions earlier**

Average cumulative distributions between year 1 and 9 (% of fund size)



Secondaries may not have the same upside potential as primary buyout funds, but they exhibit **lower return dispersion**

Vintage year IRR between 2002 - 2018



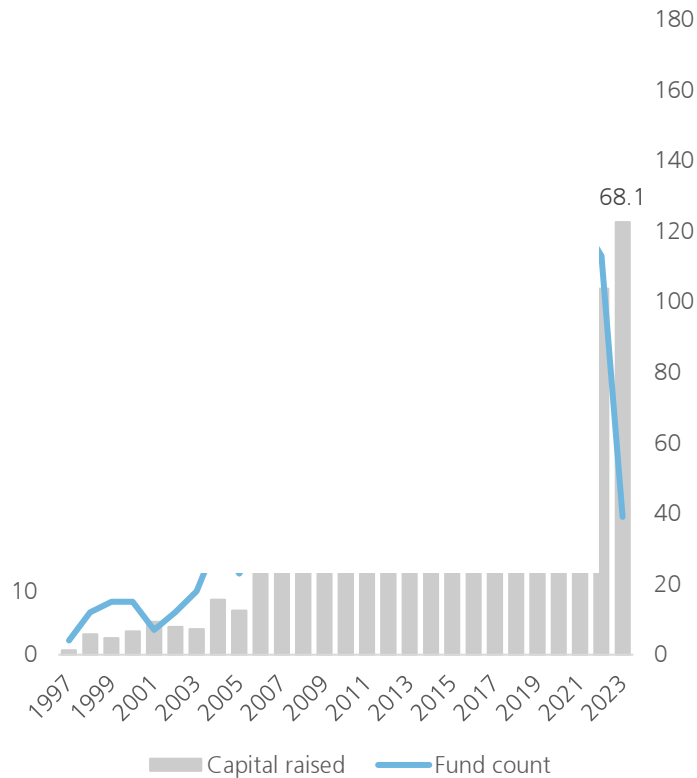
Source: Pitchbook 2022, UBS, as of February 2024

Source: Pitchbook 2022, UBS as of February 2024

Source: Pitchbook 1Q2024, UBS as of February 2024

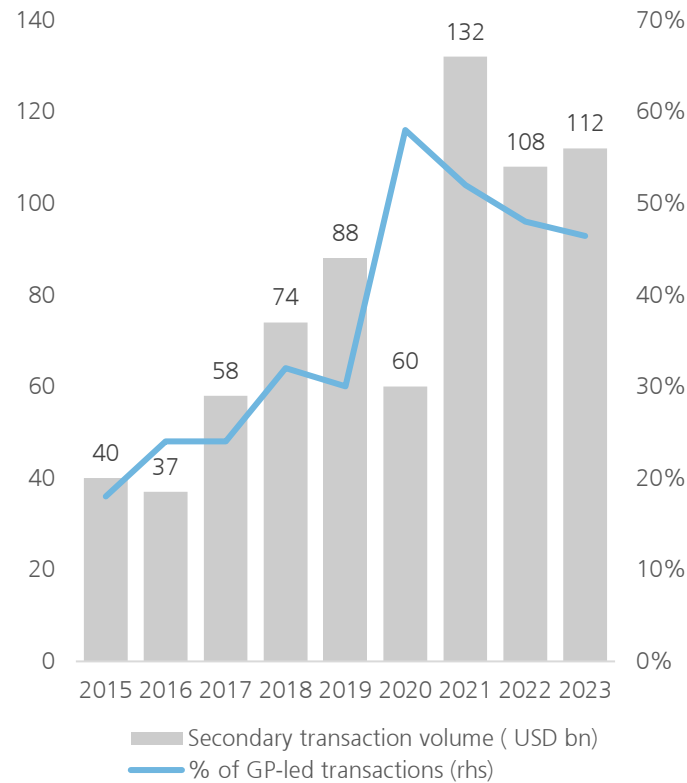
Secondaries – 2023 was an active year

Unlike other private strategies, secondary recorded a **YoY increase in LP commitments**



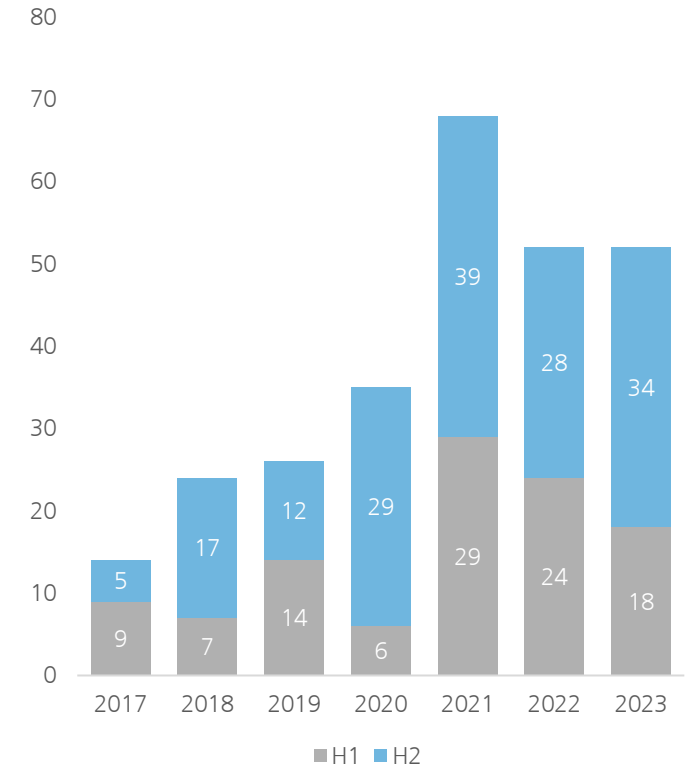
Transaction volumes also increased YoY driven by improved pricing and market sentiment

Global secondary volumes in USD bn



GP-led secondaries staged a remarkable reacceleration in 2H23

GP-led annual transaction volume in USD bn



Source: Pitchbook LCD, 3Q2023, UBS, as of February 2024

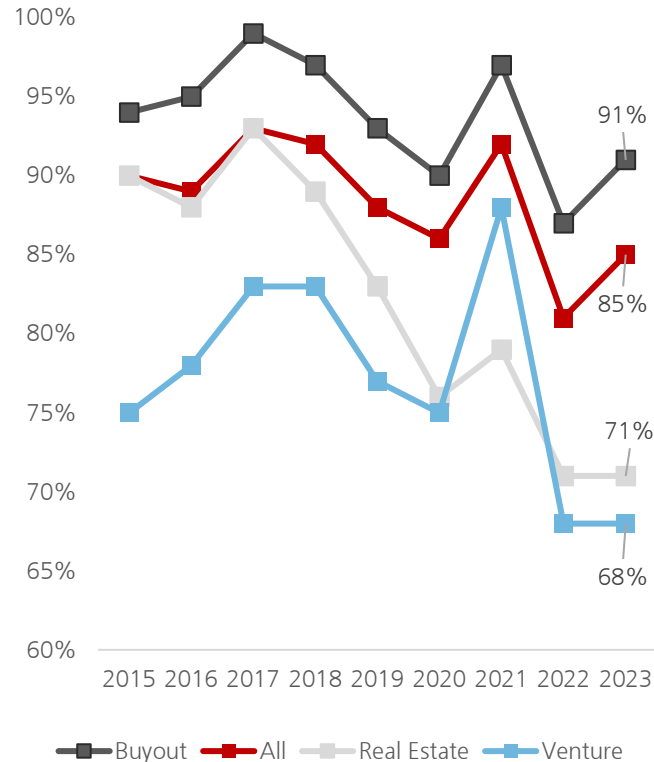
Source: Jefferies Global Secondary Market Review 2024, UBS, as of February 2024

Source: Jefferies Global Secondary Market Review 2024, UBS, as of February 2024

Secondaries – Pricing dynamics continue to indicate good entry points

Pricing has narrowed with noticeable dispersion across strategies but still offer attractive entry points

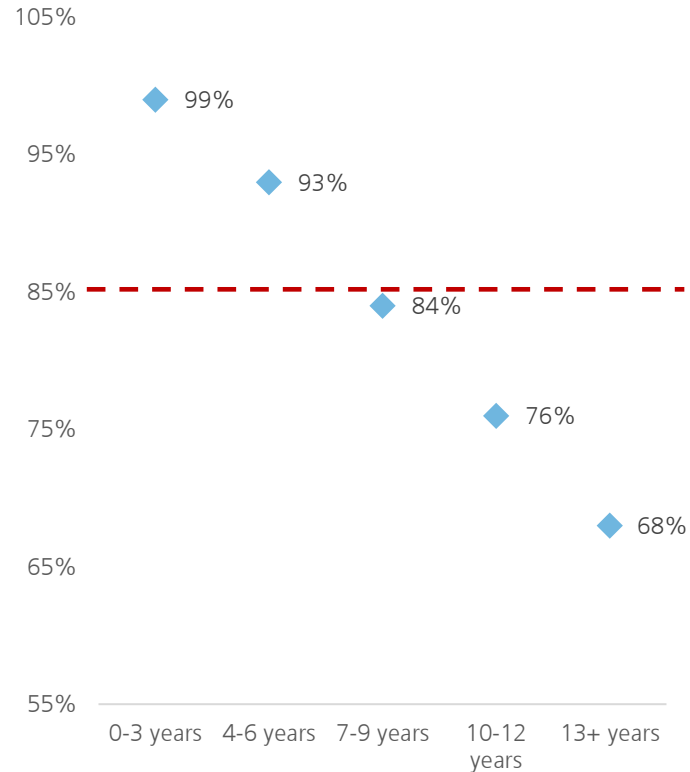
Pricing as % of NAV



Source: Jefferies Global Secondary Market Review 2024, UBS, as of February 2024

Younger funds sold at a premium while older ones at a discount

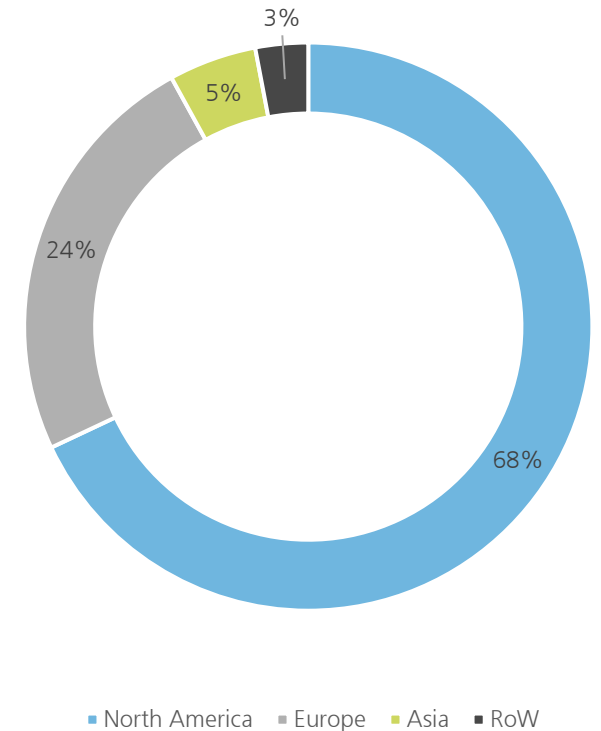
Average buyout pricing by fund age (% NAV)



Source: Jefferies Global Secondary Market Review 2024, UBS, as of February 2024

N.A. remained the primary focus for acquisitions. Demand for Asian LP stakes moderately improved at the expense of **steep discounts over 40%**

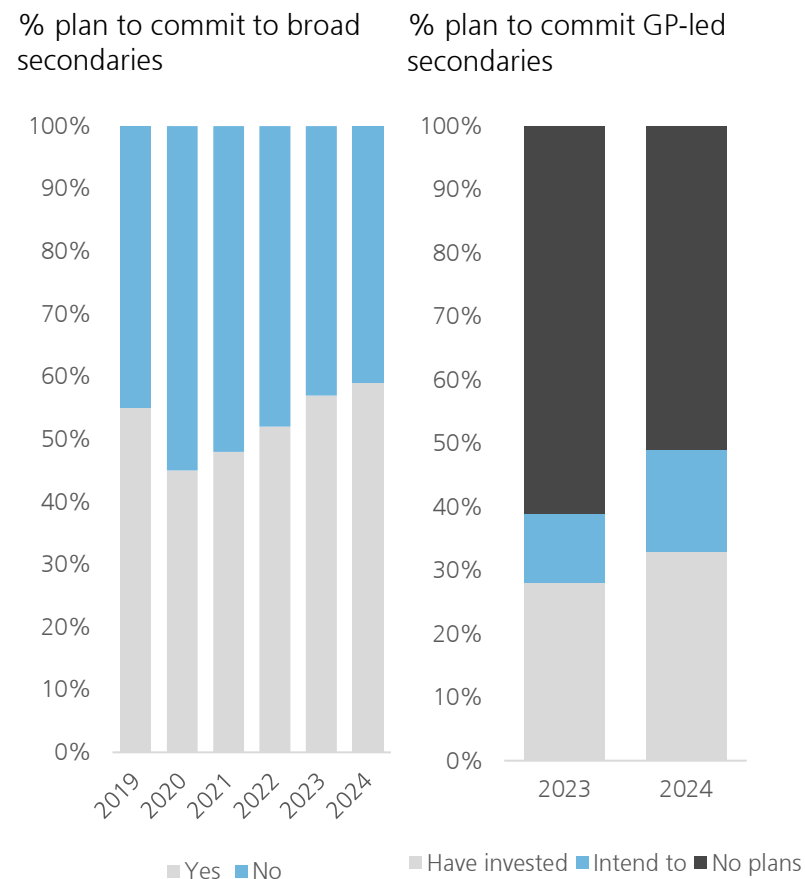
Volume distribution per region in %



Source: Jefferies Global Secondary Market Review 2024, UBS, as of February 2024

Secondaries – 2024 is set to be a good year for secondaries

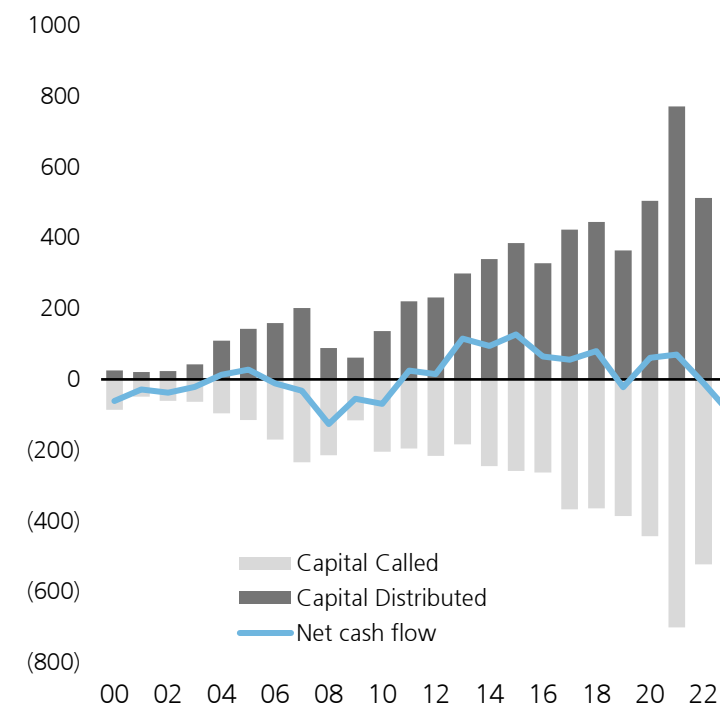
The investor base is set to **grow as more LPs plan to invest** into the asset class



Source: PEI LP perspectives 2024, UBS as of February. investor survey of 117 LPs conducted in December 2023

The slow pace in PE distributions should continue to **incentivize LPs to generate liquidity**

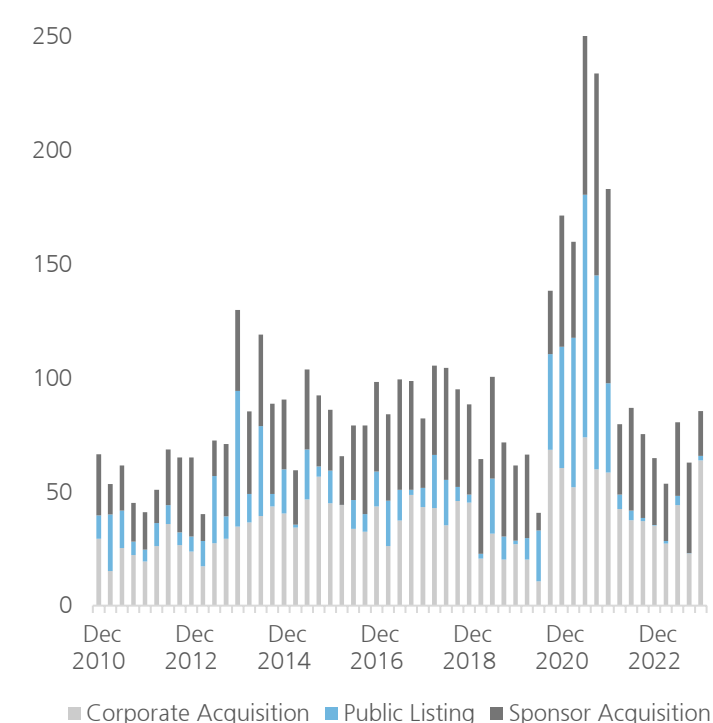
Global private equity capital called, distributed, net cash flow, in USD bn



Source: Pitchbook LCD, UBS February 2024

Exit activity will likely improve in 2024. Besides IPOs, exit to sponsors and corporates, we anticipate more GP-led secondaries

PE exit activity in USD bn



Source: Pitchbook LCD, 4Q23, UBS February 2024

Risk information

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

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