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¿CÓMO EVOLUCIONARÁ EL MERCADO DE SECUNDARIOS EN ESPAÑA?
JUEVES, 22 FEBRERO 2024

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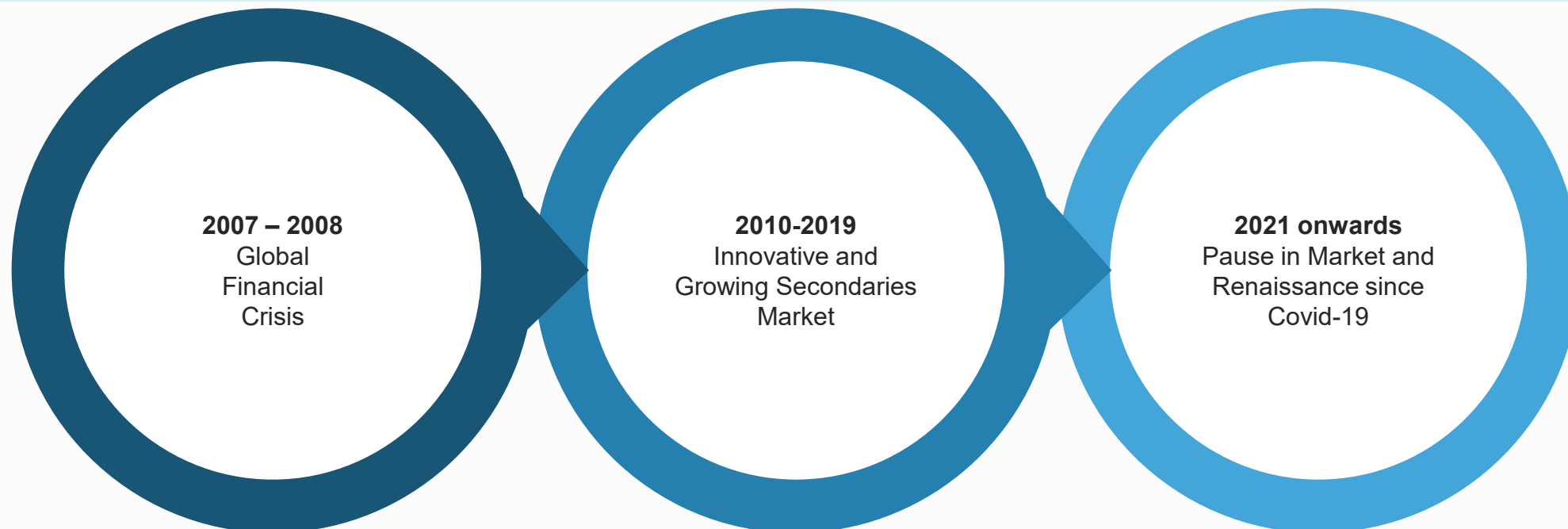


**THE SECONDARY MARKET – OVERVIEW, TECHNOLOGIES AND KEYS FOR
A SUCCESSFUL TRANSACTION**

MARKET OVERVIEW

HISTORY OF THE SECONDARY MARKET

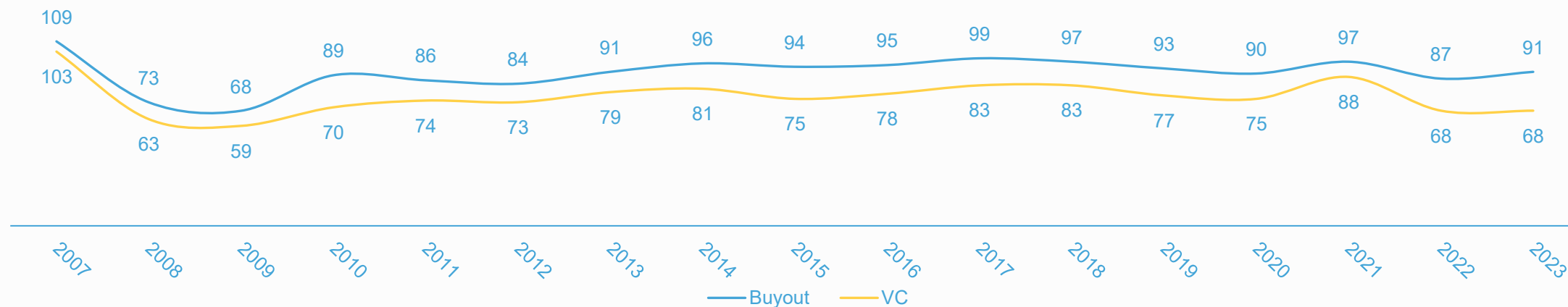
- **The secondaries market emerged over 30 years ago as a liquidity solution for distressed or price-taking sellers in an illiquid PE Asset Class**, generally driven by the need to wind down aging investment vehicles (e.g. through the sale of fund interests to other limited partners, i.e., **LP-leds**).
- Over the years, **the market has expanded into other types of transactions**, e.g. direct secondaries and, most recently, **GP-leds**.
- **The secondaries market has grown rapidly over the last few years, alongside the growth of the overall PE market**. Where, historically, it served as a liquidity tool for distressed investors, it is now a differentiated investment strategy, with different transaction modalities depending on the specific needs of the market participants – it is increasingly more an important portfolio management tool.
- To note, however, that **secondaries currently represent ~2-3% of total private capital assets under management (“AuM”)**, thus leaving high potential for further expansion.



MARKET OVERVIEW

TRANSACTION PRICING

- **In the early days of the secondaries market, discounts to NAV were large**, given the limited size of the market and number of market participants. Over the years, the market has grown, becoming increasingly more transparent and more efficient, thus leading to smaller discounts to NAV.
- **Following the great financial crisis, prices for secondary transactions peaked in 2017, having slowly declined until 2020**, where the impacts of the Covid-19 pandemic were mostly felt. **In 2021, prices were on the rise again**, reflecting, among other factors, increased NAV valuations and public markets' performance.
- **More recently, pricing has been negatively impacted by the macroeconomic and geopolitical events**, with average transaction price as percentage of reported NAV contracting from 88% to 68% for venture capital funds ("VC") and from 97% to 87% for buyout funds throughout 2022.
- **In 2023, buyout pricing (72% of transaction volume) climbed 400 bp from 2022, reaching 91% of NAV**, while venture pricing remained static at 68% of NAV.

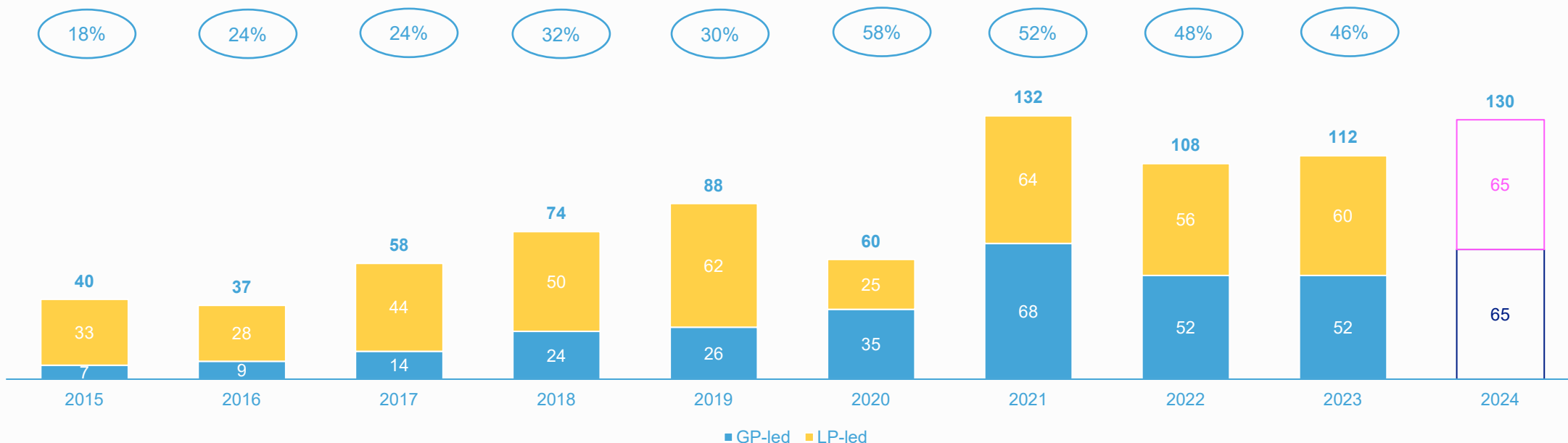


SOURCE: EIF BASED ON JEFFERIES AND GREENHILL.

MARKET OVERVIEW

TRANSACTION VOLUMES

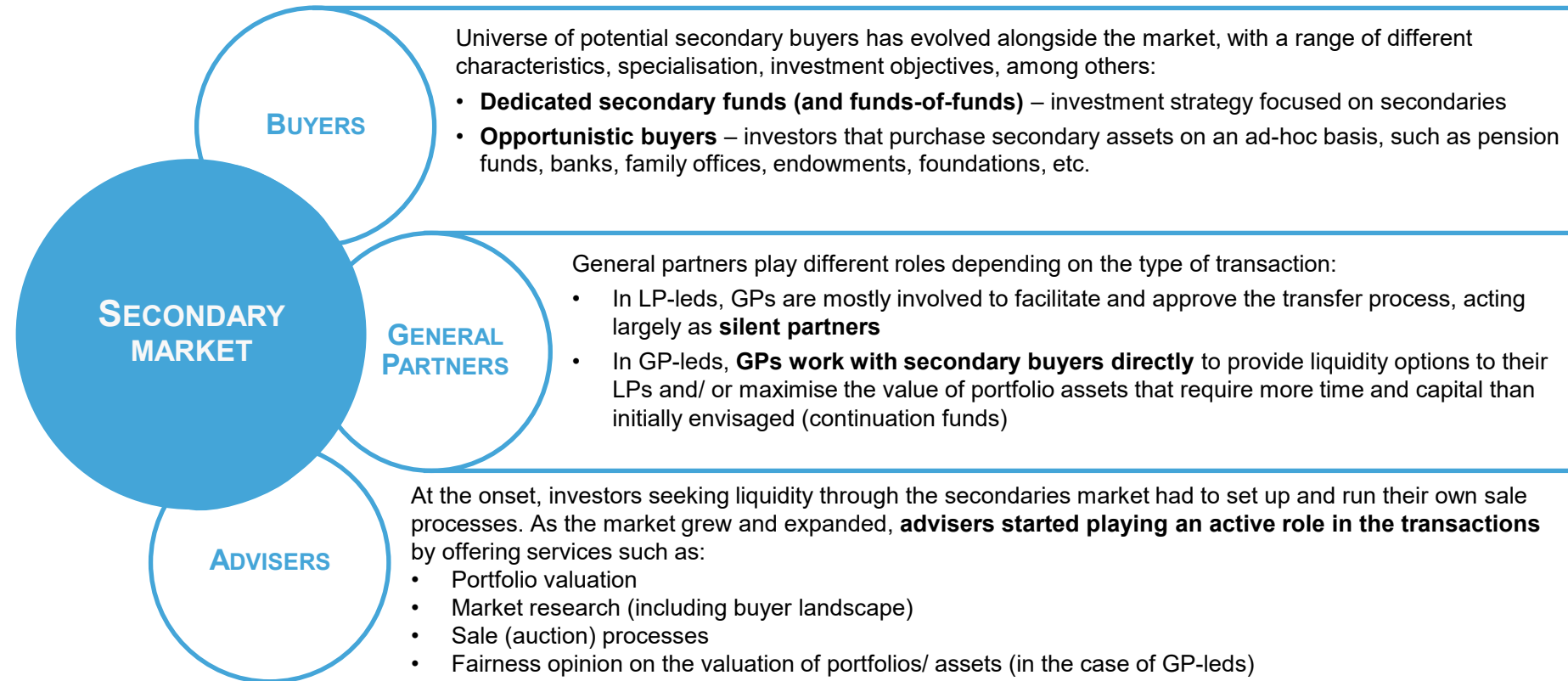
- The secondaries market has been growing consistently in the last years, having more than doubled in size between 2015 and 2019, and more than tripled until 2021. Following the outbreak of the global Covid-19 pandemic, transaction volume declined c. 32% in 2020, reaching c. 60 billion USD.
- The market remained active despite the recent macroeconomic and geopolitical events. 2023 Represented the Second Largest Year on Record for the Secondary Market, with Transaction Volume Picking Up in H2'23
- Since 2020, GP-led transactions have represented approximately 50% of total volume, with continuation funds representing the majority of transactions.



SOURCE: JEFFERIES, EVERCORE, SETTER, PJT PARK HILL, COLLER CAPITAL AND OTHER EIF PROPRIETARY INFORMATION.

SECONDARY MARKET PARTICIPANTS

OVERVIEW OF PROFILES



SECONDARY MARKET PARTICIPANTS

WHAT DRIVES SECONDARIES

Fund Life Issues

- Little or no time left in fund life
- Limited or no follow-on availability
- Few or no undrawn commitments to drawdown from investors
- Material change in fund terms requiring investor consent

Concentration Issues

- Required capital could breach concentration limits
- Fund manager may be unwilling to commit additional capital to existing company/ies due to existing exposures

Borrowing Restrictions

- Fund constitutional documents may limit additional borrowing being put in place

GP Considerations

- Ability to give investors liquidity
- Continue to manage assets with perceived upside



SECONDARY TECHNOLOGIES



SECONDARY TECHNOLOGIES

TYPES OF SECONDARIES TRANSACTIONS

Traditional secondary transactions

LP-led transactions

Investors (limited partners) sell their interests in private capital funds to other investors.

Direct secondaries

Sale of directly-owned interests in private companies, typically involving portfolios of disparate holdings, by financial institutions or corporate players.

GP-Led Secondary transactions

Tender offer (with or without stapled primary capital)

Tender offer to LPs to sell their interests to a new buyer in exchange for cash – buyers will typically be asked to provide stapled primary capital into a new fund managed by the GP.

Continuation fund

Transfer of asset(s) to a newly created vehicle managed by the GP of the original fund.

Annex or top-up fund

Companion fund to the main fund, allowing for additional capital injection from a secondary fund into the main fund's assets.

Portfolio strip sale

Sale of a proportion of fund's holdings in a defined basket of unrealized investments to a secondary buyer, following which sale proceeds are distributed to its LPs.

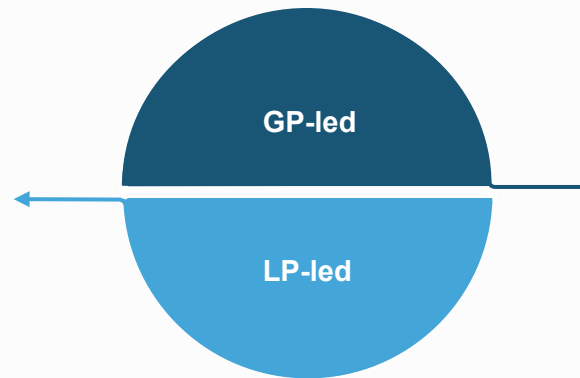
Preferred equity

Financing instrument that sits between debt and equity in the fund's capital structure. LPs continue to be exposed to the potential future upside of the fund, while also benefitting from immediate liquidity.

SECONDARY TECHNOLOGIES

BENEFITS OF LP-LED AND GP-LED TRANSACTIONS

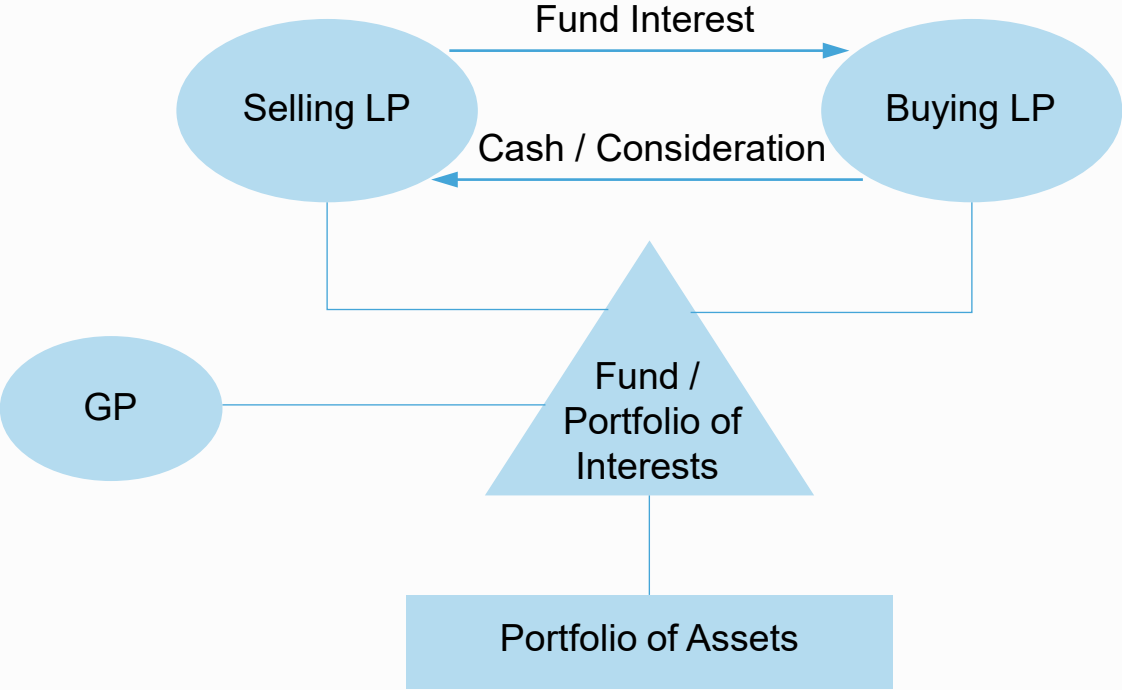
- Achieve early liquidity
- Re-balance portfolio proactively
- Lock-in returns on the investment
- Avoid further capital calls (if relevant)
- Access to high quality GPs and assets
- Strategic exits of GP relationships



- Return capital to LPs
- Inject additional capital to support portfolio
- Position the portfolio for recovery
- Extend holding periods/adjusting economics
- Ability to retain “trophy” assets
- Navigate transfer restrictions / pre-emption rights
- Enable material changes to fund terms

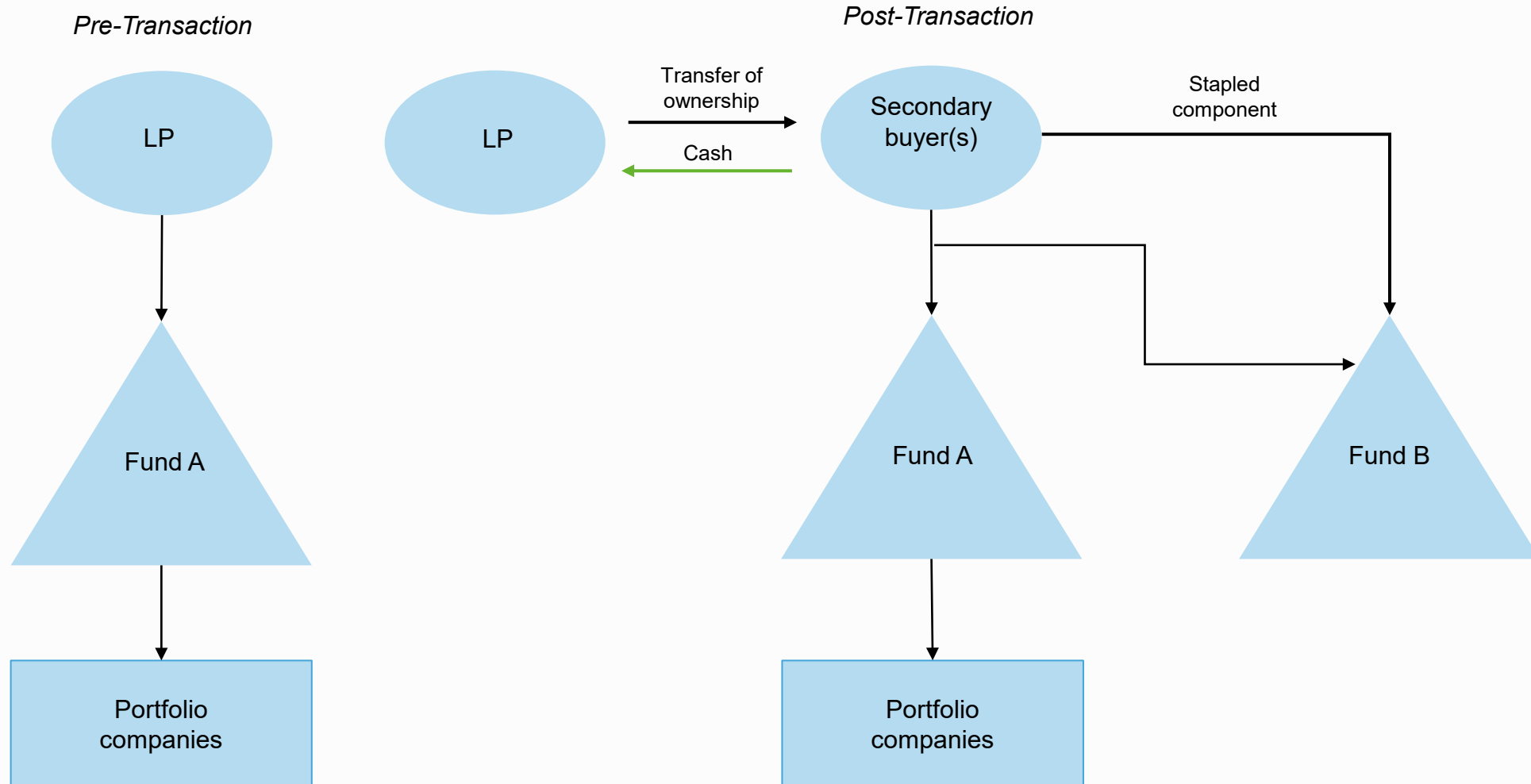
TYPES OF SECONDARIES TRANSACTIONS

LP-LED PRIVATE SALE



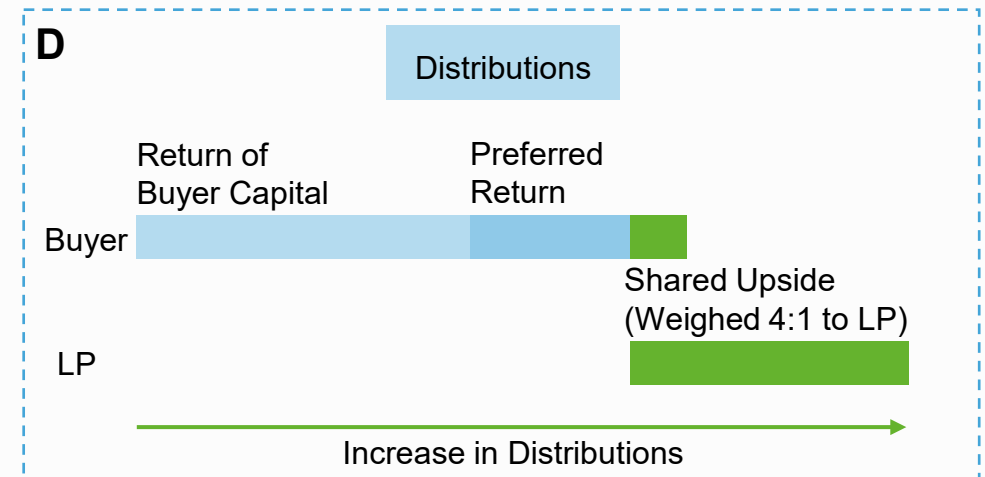
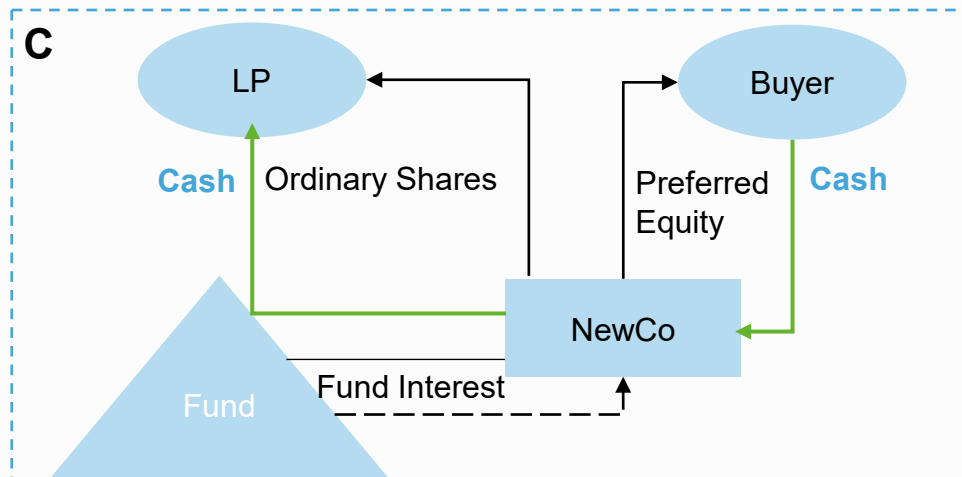
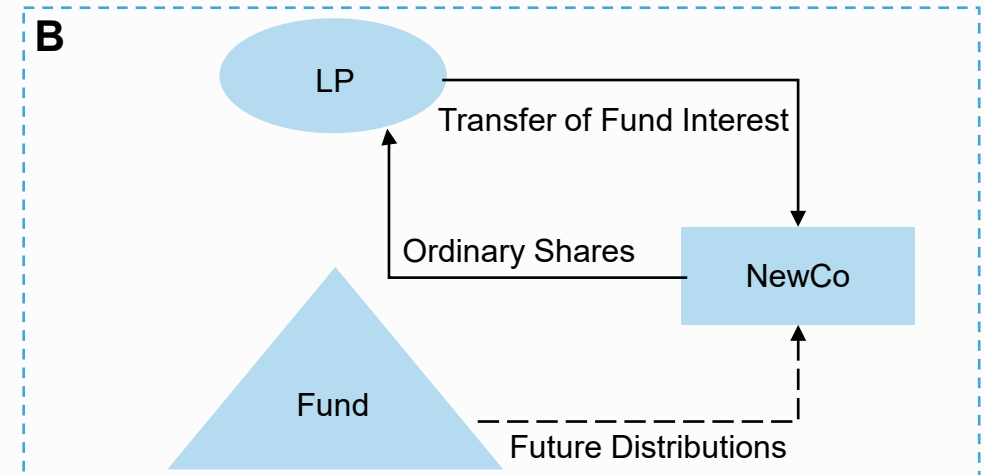
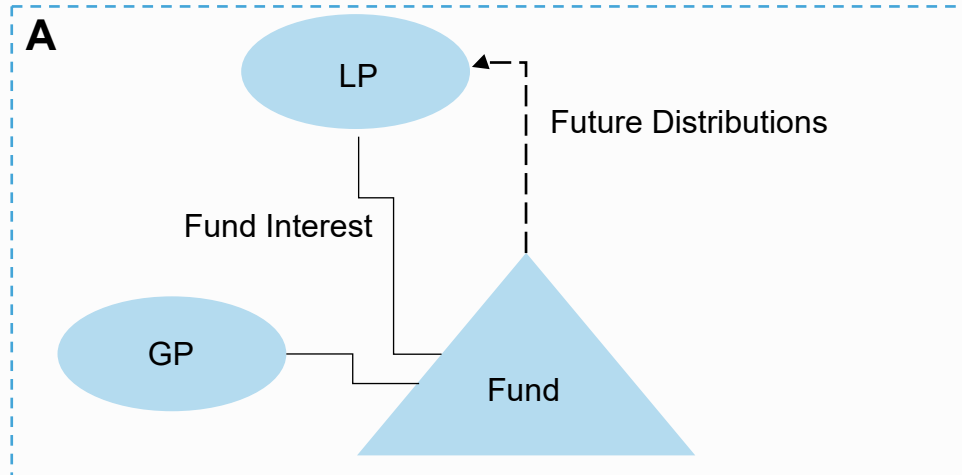
TYPES OF SECONDARIES TRANSACTIONS

STAPLED PRIMARY CAPITAL TRANSACTION



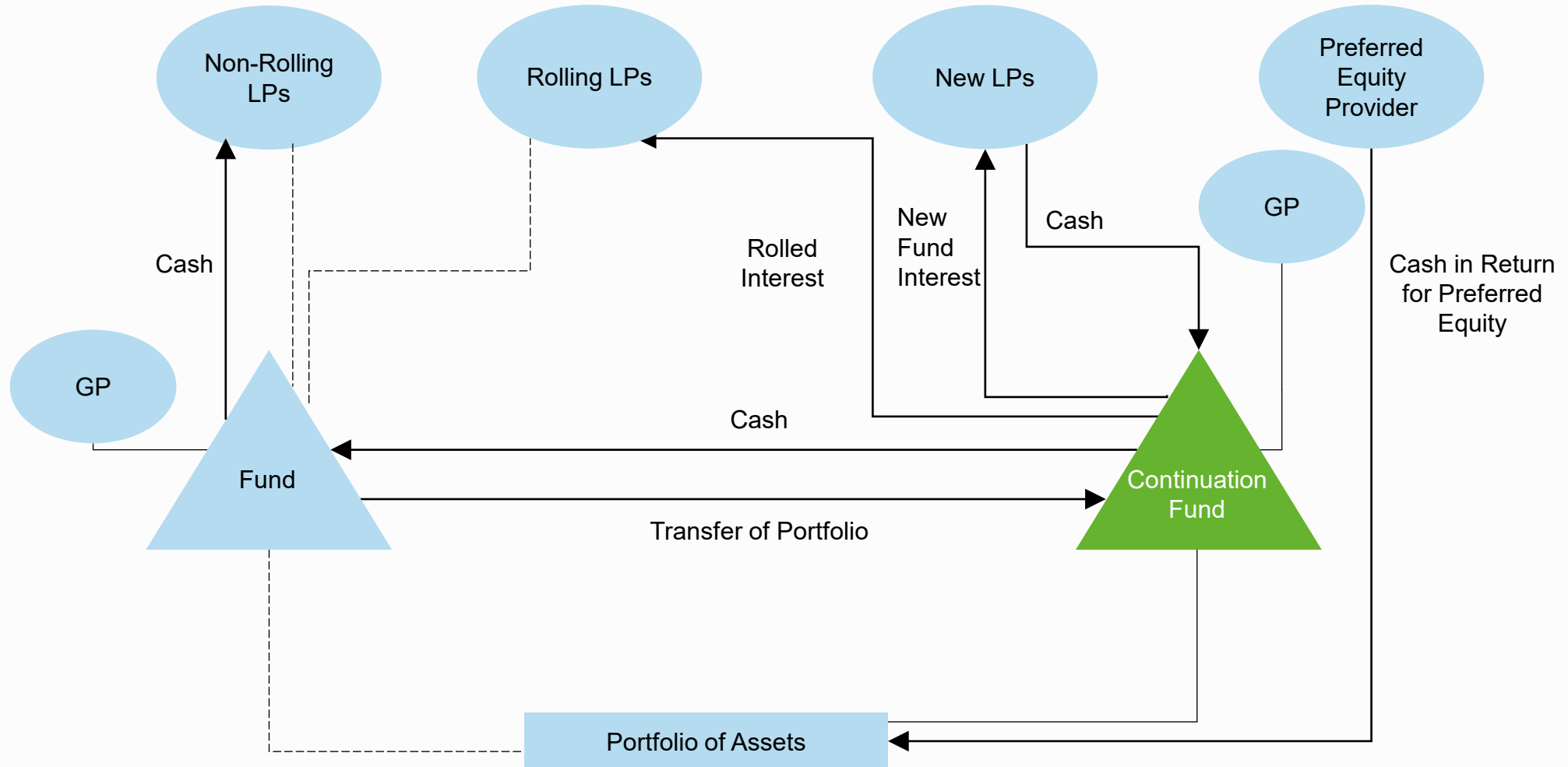
TYPES OF SECONDARIES TRANSACTIONS

LP-LED PREFERRED EQUITY



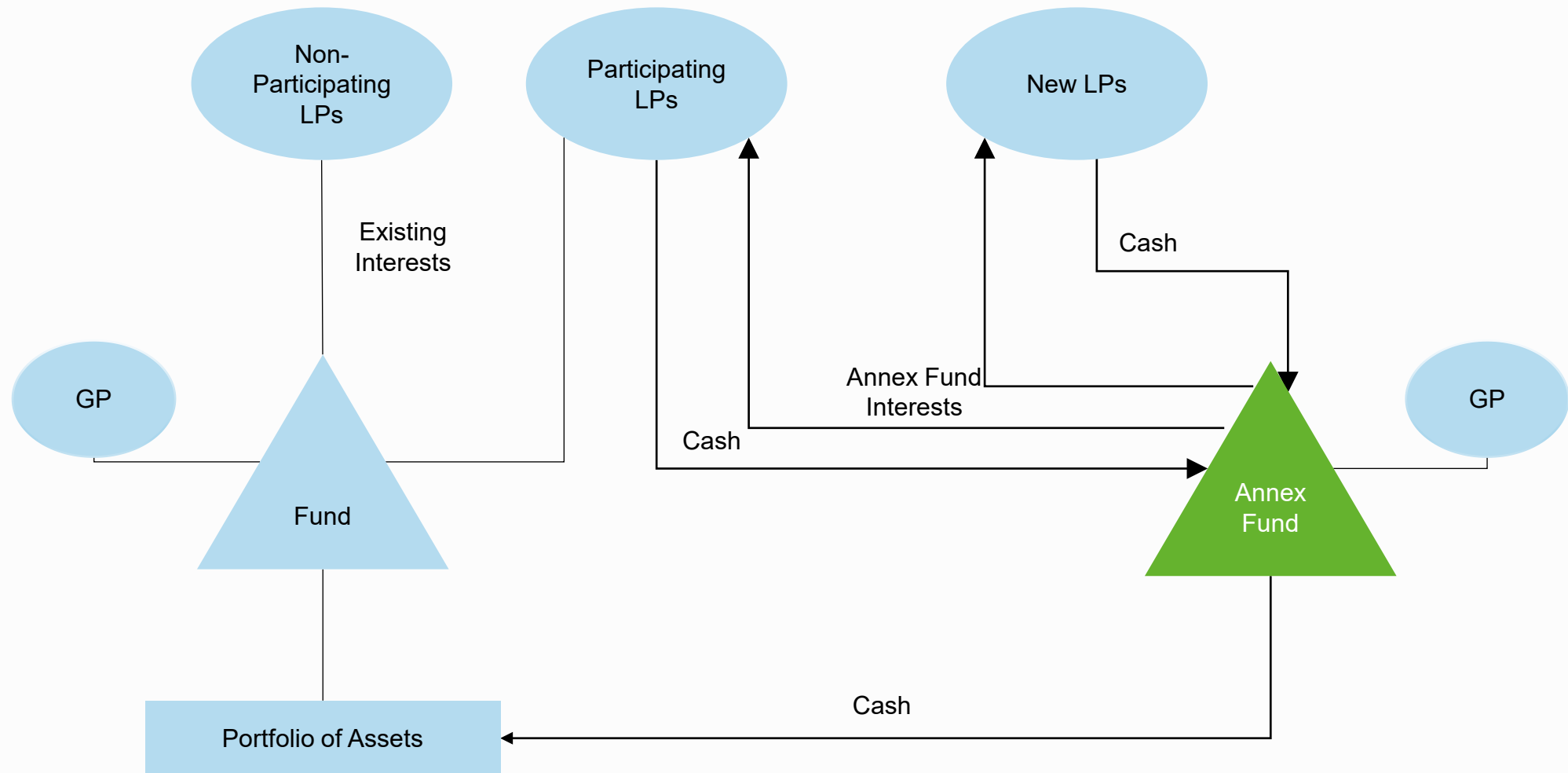
TYPES OF SECONDARIES TRANSACTIONS

GP-LED CONTINUATION FUND



SECONDARY TECHNOLOGIES

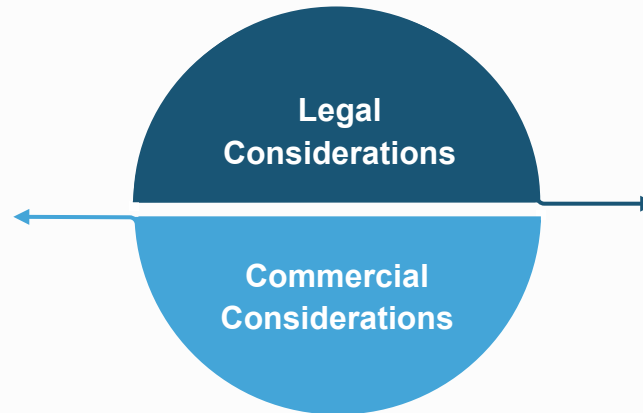
GP-LED ANNEX FUND



SECONDARY TECHNOLOGIES

KEY CONSIDERATIONS

- Disclosure to investors – including rationale of transaction
- Involvement of existing LPs?
- How will pricing be determined? Third party valuer? Fairness opinion?
- Who will bear the cost?
- Enhanced economics? Team commitment?

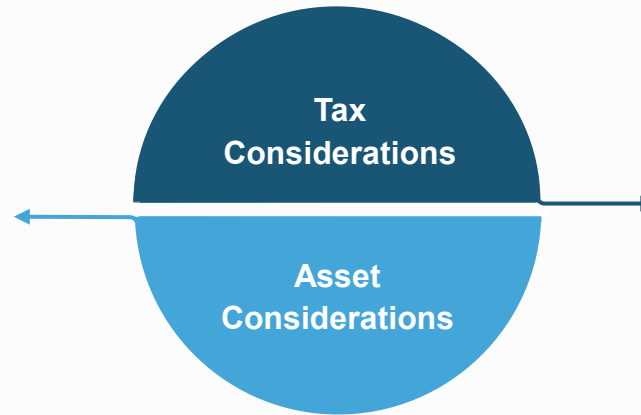


- Confidentiality
- Additional vehicles – how many, jurisdiction, legal form
- Marketing materials
- Regulatory applications
- US Tender Offer Rules
- New SEC GP-Led Secondaries Rule
- Conflicts/approvals
- Changing LPA terms

SECONDARY TECHNOLOGIES

KEY CONSIDERATIONS (CONTINUED)

- Governance rights
- Are any change of control / other contractual restrictions triggered?
- Does it constitute change of control under antitrust or other regulatory requirements?
- Due diligence process and management involvement
- Pricing adjustment
- Pre-completion undertaking
- W&I



- Does the transaction trigger tax liabilities? If so, who for?
- Fund executives – what is the expected treatment of carried interest?
- US withholding taxes

SECONDARY TECHNOLOGIES

KEY CONSIDERATIONS (CONTINUED)

Summary based on ILPA Continuation Funds: Considerations for LPs and GPs, May 2023

General Principles	Rationale & Conflicts	Process & Timing	Terms & Documentation
Value maximisation for existing LPs	Clear rationale for the Continuation Fund	Process to conform with relevant provisions of the existing LPA (no terms that pre clear conflicts of interest)	Rolling LPs' side letters should apply to the Continuation Fund where relevant
Rolling LPs should not be worse off than without a transaction	Advisory Committee to vote on waiver of the conflict of interest that arises with the process	Process managed by an independent advisor	No increase in management fee or carried interest or decrease in hurdle rate
Symmetry of information between existing LPs and prospective new buyers	Competitive process to ensure fair price (third party valuation)	Allow enough time for LPs to take a rollover or sell decision	No crystallization of carried interest for rolling LPs
	Timely information to the Advisory Committee about the Continuation Fund		100% of rollover of carried interest accruing to the GP into the new vehicle

Source: EIF based on ILPA Continuation Funds guidelines May 2023

SECONDARY TECHNOLOGIES

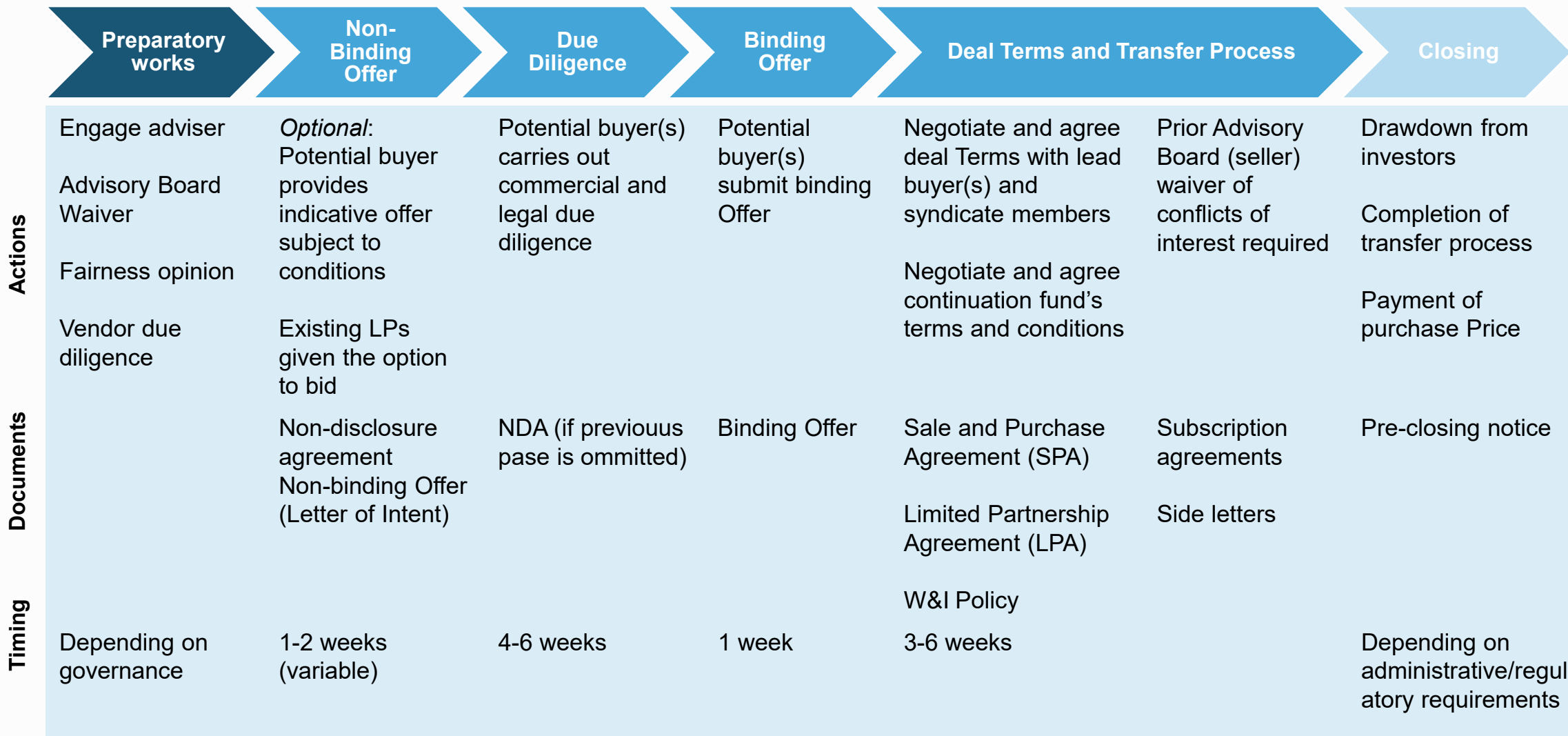
KEY CONSIDERATIONS (CONTINUED)

CNMV position on secondaries and conflicts of interest

- Q&A 17 July 2023
 - 37 quarter “Las compraventas de activos entre vehículos gestionados o aplicaciones presentan conflictos de intereses relevantes en los que resulta muy difícil acreditar el interés exclusivo para ambas partes y que la operación se realiza en condiciones de mercado. Respecto a esto último, conviene recordar que los activos en los que invierten las ECR y EICC son generalmente ilíquidos y, por tanto, no cuentan con un mercado representativo que permita determinar en cualquier momento su valor de mercado, lo que implica una dificultad añadida a los efectos de la adecuada acreditación.
 - Teniendo en cuenta lo anterior, se considera que este tipo de operaciones deben ser muy excepcionales y han de someterse a procedimientos particularmente robustos de prevención de conflictos de intereses, conforme a lo previsto en el artículo 61 de la Ley 22/2014, y cumplir con la debida transparencia a los inversores. En todo caso, las gestoras deberán acreditar de manera reforzada el interés exclusivo para ambas partes y que el precio de la transacción se corresponde con el que pactarían dos partes interesadas y debidamente informadas, en condiciones de independencia mutua.
 - A efectos de determinar el precio de la transacción, la experiencia supervisora indica que los precios estimados por expertos independientes no siempre son representativos del valor de una transacción en mercado, por lo que, si bien son útiles a efectos de valoración o como método de contraste de los precios ofrecidos por terceros, deben considerarse con cautela a efectos transaccionales.

SECONDARY TECHNOLOGIES

TRANSACTION PROCESS (GP-LED TRANSACTION)



Illustrative and non-exhaustive



FUTURE OF THE SECONDARY MARKET



FUTURE OF THE SECONDARY MARKET

LOOKING AHEAD

Q1 2023 and Q2 2023

- Heightened valuation scrutiny amongst market volatility, especially for portfolios, single assets remarkably strong
- Decrease in volume year on year, buy side capital constraint
- Limited traditional exits fueling sell side activity and oversupply of buy-side opportunities and bid/ask spreads

Q3 2023 and Q4 2023

- Slowdown for single-asset volume as capital has already been allocated
- LP led transactions to have a higher closing rate and volume than GP led
- Quality GP led transactions and diversified LP portfolio continue to generate strong buyer demand in H2

2024 and Beyond

- Increased buy-side entrants (strong secondary fundraising outlook) and competition for quality assets/portfolios
- Expect that volumes will recover into 2024 but inflation, higher interest rates and geopolitical tensions continue to be challenges to the market, although valuations may gradually return to a more favourable environment
- Investor demand for impact oriented strategy increase importance for socially responsible investment in secondary market

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