Blackstone

PRIVATE WEALTH SOLUTIONS

Finding Opportunity in Secondaries

So-called secondary private equity (or "secondaries") consists of private equity limited partnership positions which are accessed after the initial investment period.

Secondaries represent a distinct investment category when compared to "primary" private equity, which historically has been investors' dominant method of accessing the asset class. After years of rapid growth, the secondaries market today offers investors a diversified means of accessing private equity. Market activity is now driven primarily by active portfolio management with the number of active private equity limited partners growing fivefold since 2008.[1] In Figure 1 and below, we compare secondaries to primary private equity, we explain some of the reasons behind the field's rapid growth, and we conclude by describing how secondaries may benefit investment portfolios.

FIGURE 1: Primary versus Secondary Private Equity: Comparing Select Characteristics

	Primary	Secondary
Assets Acquired	Blind pool	**Identifiable assets**
Year of Acquisition	At inception	**Years 4-10+**
Cost Basis	Par	**Usually discount to NAV**
Return of Capital	Years 5-10	**Years 1-5**
Diversification	Limited to fund's portfolio	**Highly diversified**

Secondary private equity differs from primary private equity in significant ways:

- **Identifiable assets:** The assets an investor acquires are known and identified, whereas investors in a new ("primary") private equity vintage are investing in a relatively blind pool of assets.
- **Seeks mitigation of J-curve:** Investors in secondaries are typically entering between four and ten years after a fund's launch, whereas primary private equity investors participate from inception.
- **Cost basis:** Investors in secondaries often acquire investments at discounts to Net Asset Value (NAV), whereas primary private equity investors invest at par.
- **Potential for accelerated return of capital:** Because the investor steps in near the middle of the life cycle, secondaries typically offer a shorter period of time until return of capital (years 1 to 5) versus primary private equity (typically years 5 to 10).
- **Diversification:** Secondary private equity investments are often highly diversified compared to primary private equity, historically with less volatility.[1, 2]

Note: The information in Figure 1 is provided for educational purposes only and should not be construed as financial or investment advice, nor should any information in this document be relied on when making an investment decision. Recipients should consult their own financial advisers regarding the information herein. The information presented represents what is typically seen for these fund types but variations and/or exceptions do exist.

1. Diversification does not ensure a profit or protect against loss in declining markets.

2. Source: Preqin, 2023.

Secondaries: an Era of Rapid Growth

The secondaries market has grown rapidly in recent years (Figure 2). The growth has been driven by a few main factors, including a significant number of new entrants expanding the Limited Partner (LP) universe, LPs growing larger and increasing allocations, and an overall increase in investor private equity allocations.

Today, investment in secondaries draws from $10.2 trillion in remaining value across more than 12,000 active funds in the 2005 through 2022 vintages.[1]

At present, we see four diverse sources of supply:

1. Active portfolio management and concentration
2. "Tail end" funds, as investors seek to capitalize on the dissolution of fund-of-funds
3. General Partner-led opportunities, including recapitalizations
4. Frictional displacement and opportunistic drivers

FIGURE 2: Growth of Secondary Private Equity, 2009-2022

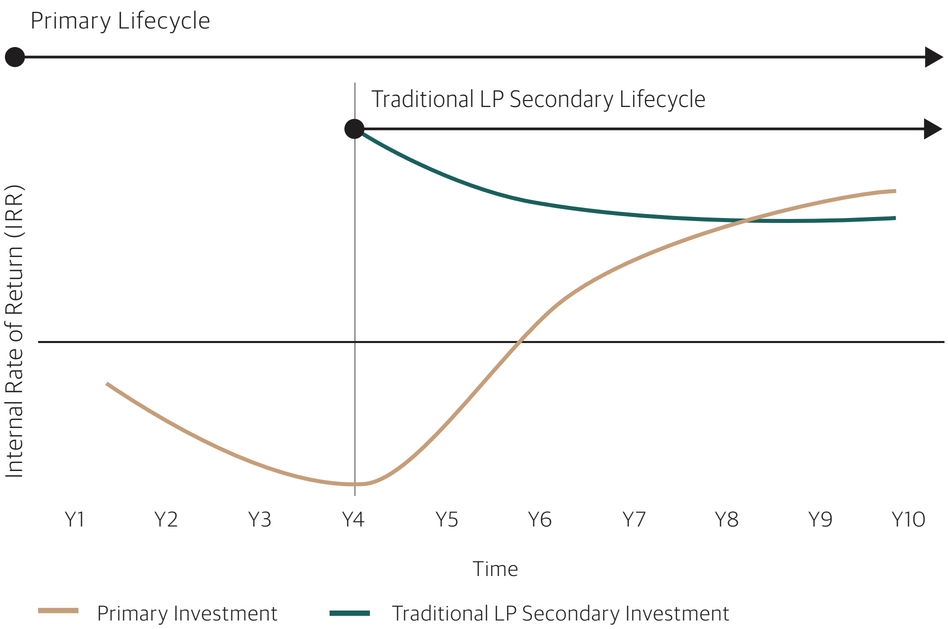
Secondary Market Volume[2]
(US $ in billions)

Note: There can be no assurance that any trends depicted above will continue or will not reverse. Please see Important Disclaimer Information, including "Opinions."

1. Source: Preqin, February 2023. There can be no assurance that any trends discussed in the above will continue or will not reverse. Includes real estate and real assets.
2. Source: Greenhill, Evercore, Jefferies, 2022.

Secondaries May Benefit Investment Portfolios

FIGURE 3: J-Curve Mitigation



Investors seeking the return potential of private equity but with shorter time horizons may find an allocation to secondary private equity worth reviewing. Secondaries generally bear the following characteristics:

- Further along the "J-Curve" than primary private equity
- Rapid capital return potential
- Potentially capture distributions sooner than in the full life cycle of a primary private equity investment

Note: **For informational purposes only.** These statistics are not meant to be predictive of the performance of any particular fund, nor are they meant to suggest that all private funds result in positive returns or may avoid loss of principal. Private equity investments involve significant risk and typically high levels of leverage. Hypothetical performance results have many inherent limitations and no representation is made that any investor will, or is likely to achieve, results similar to those shown. Each investor's cash flows and returns will differ and may result in a total loss of principal. There can be no assurance that an allocation to alternatives would yield returns or protect capital. **Past performance does not guarantee future results.** Diversification does not ensure a profit or protect against loss. Please see Important Disclaimer Information, including "Opinions."

Conclusion: Why Secondaries?

Among the reasons investors may consider secondaries:

Rapid Market Growth	A growing pool of assets and sellers has created new investment opportunities.
Differentiated Investment Profile	The secondary market provides a highly diversified, potentially lower risk experience than that of traditional private equity investments.[1, 2]
Shorter Investment Horizon	Investing in secondaries may provide an accelerated investment experience for investors compared to the primary market.

1. Diversification does not ensure a profit or protect against loss.

2. Source: Preqin, 2023.

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