



FY 2023 Secondary Market Survey Results

Evercore Private Capital Advisory

March 2024

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2023 at a Glance

In our last edition, we said that the secondary market had remained resilient in 2022 despite deteriorating macro conditions. In 2023, the secondary market once again outperformed a challenging macro, and we believe there is a strong case to suggest that it did so because of the tools and solutions that secondaries provide to private markets

Relative Macroeconomic Resilience

3.0% vs. 2.2%

Global GDP Growth (2023 actual vs. expected)¹

The global economy was more resilient than expected in 2023, with GDP growth exceeding analysts' forecasts

Financial Market Challenges

\$2.9tn vs. \$3.3tn

Global M&A activity in 2023 vs. 2022 (-17%)²

Global M&A activity is at its lowest since 2013, both sponsor-led transactions and overall; global ECM issuance remains down 60% vs. 2021³

Consequences in the Secondary Market

\$114bn vs. \$103bn

Secondary Volume in 2023 vs. 2022 (+9%)

The secondary market rebounded in 2023, driven by a sharp recovery in LP-led volume, which saw its second biggest year on record

Key Trends

Interest Rates - 2023 saw interest rate hikes across major economies in an attempt to slow inflation

Growth is expected to remain subdued in 2024 as tighter monetary policy continues to take effect

Inflation - Inflation was brought under control in major global markets in 2023, after starting the year at a 40-year CPI high

Sticky wage inflation is expected to support core inflation longer, assuming labour markets remain supportive

Geopolitics - A number of major geopolitical conflicts emerged in 2023

Against a backdrop of national elections planned in a number of major countries in 2024, ensuring that these conflicts don't spread geographically will be critical

Key Trends

Exit Environment - The muted M&A environment slowed distributions, particularly for private markets LPs

ECM markets are showing some signs of recovery after a year dominated by follow-on trades rather than IPOs

Assets - Major indices ended 2023 at near all-time highs - S&P 500, Nasdaq and Stoxx 600 up 24%, 43% and 13% respectively, mainly due to the top 5-7 stocks

Companies generally navigated the macro environment well and adjusted to zero-interest rates coming to an end and a return to a more normalised environment

Fundraising - 2023 has been a hard year for GPs, with fundraises taking longer and many falling short of targets

With just \$650bn raised by PE Funds in 2023, this is the lowest amount since 2017, though at \$483m, the average fund size is at a historic high, suggesting a flight to quality and increased concentration⁴



Mike Warakowski
MD

"Lack of distributions via traditional exit channels further pushed the PE secondaries market into the spotlight, showcasing the powerful tools it can offer to GPs and LPs alike"

"Appetite for GP-leds is influenced by relative value of LP portfolio trades; interest in CV deals is much higher when the LP market is pricing at 90%+ than when it is trading closer to 80%"



Jim Tilson
MD

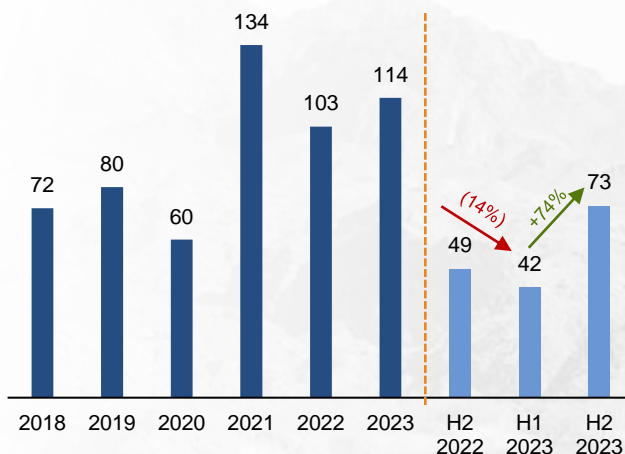
After a slower H1, momentum picked up and 2023 had a very strong ending, as \$73bn closed in H2

Pricing for LP-leds has increased and stabilised, supporting GP-leds as a result. The market appears to be in healthy balance; capital is available, but allocated very selectively towards high-quality opportunities

2023 Secondary Market Update

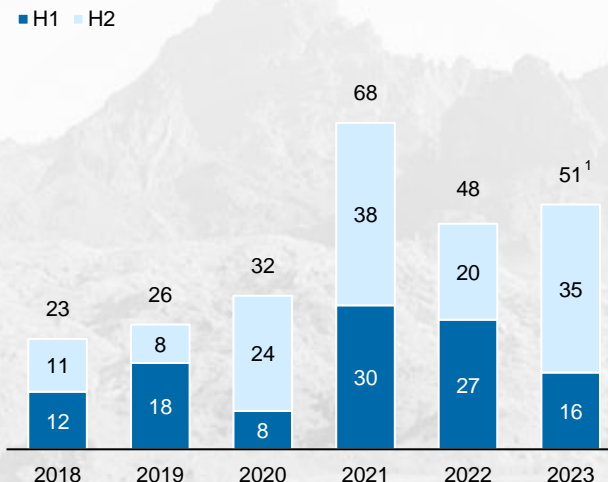
In a turbulent macroeconomic environment, secondary volume for 2023 remained strong

Secondary Market Transaction Volume (\$bn)



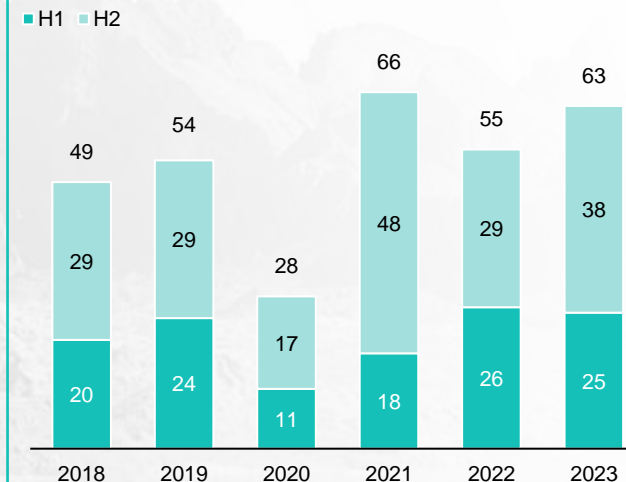
As attractive pricing drove LP-led growth in H1, GP-led volume rebounded in H2

GP-Led Transaction Volume (\$bn)



After a muted 2022, LP-led deal volume rebounded in 2023, slightly below 2021 levels

LP-Led Transaction Volume (\$bn)



45%

GP-led Volume
vs. 46% in YE'22

55%

LP-led Volume
vs. 54% in YE'22

46%

Single-Asset Deals (as % of Asset Deals)
vs. 52% in YE'22

\$128bn

Average LP Portfolio Volume Evaluated
For top 10 investors by volume closed

"Macro conditions continue to push LPs for liquidity, driving a stable LP-led supply with potential for acceleration as more LPs embrace active portfolio management"

"As a result of market conditions, the bar was raised for GP-led transactions, which came under higher scrutiny, particularly on valuation, alignment and performance"

- US-headquartered secondary buyers

"GPs continue to use secondaries to give their best-performing assets follow-on capital and extend duration for value creation. GPs are working hard to provide liquidity to their LPs in the current market environment"

"Asset quality and GP alignment were the key factors in successfully closing GP-led transactions in 2023"

- US-headquartered secondary buyers

"LP portfolio volume in 2023 was very strong, despite many deals not getting done, as buyers continued to be selective and focus on high-quality transactions only"

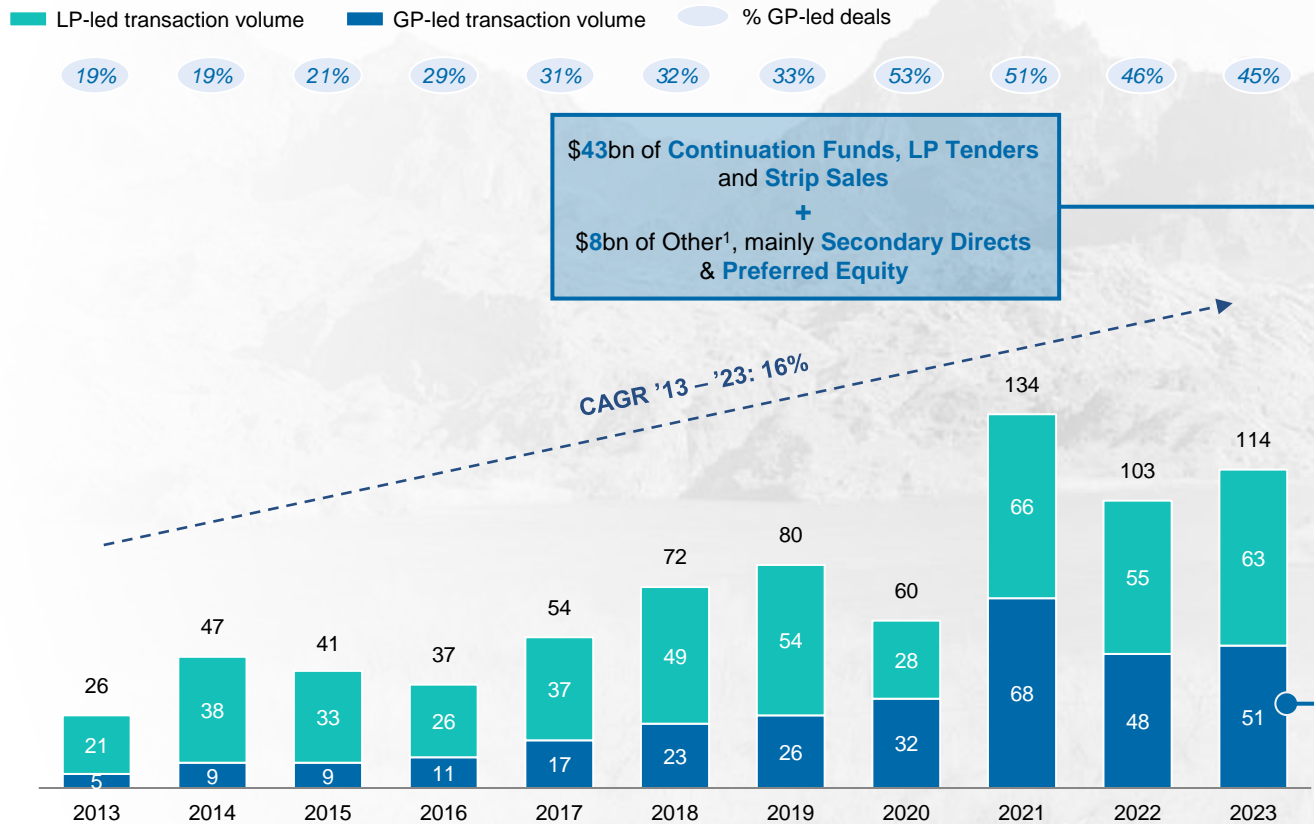
"As distribution activity slowed in 2023 and interest rates continued to rise, sellers utilized the secondary market to re-position their portfolios and access liquidity"

- US-headquartered secondary buyers

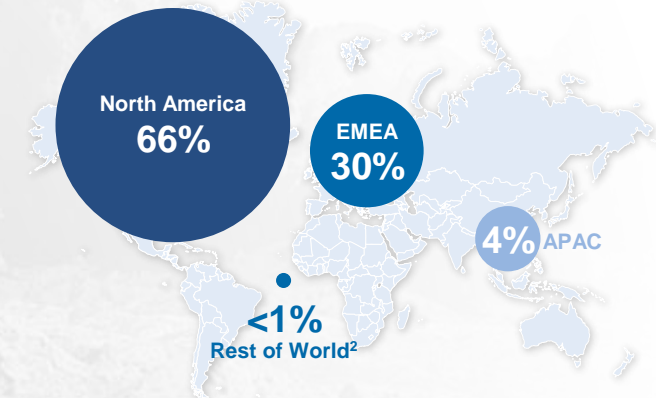
2023 Secondary Market Transaction Volume

Transaction volume reached \$114bn in 2023, a testament to the importance of secondaries as a liquidity solution to private markets

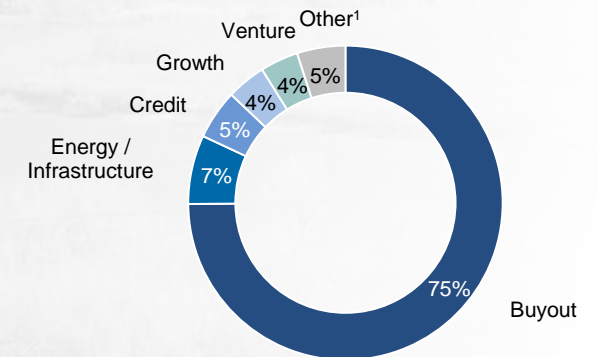
Secondary Market Transaction Volume Over Time (\$bn)



Investments by Geography



Investments by Asset Type³



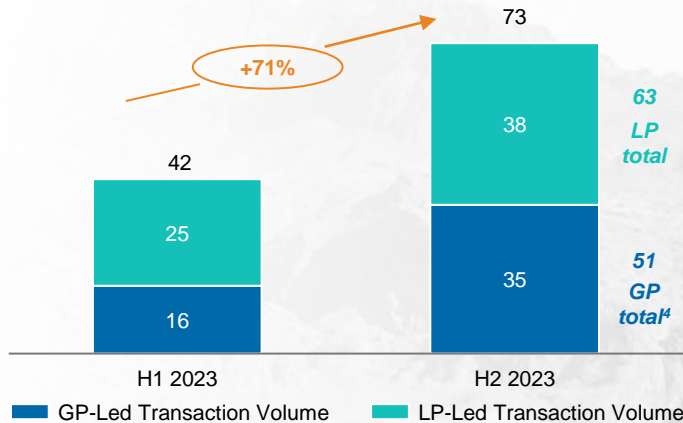
140+ secondary investors participated in our 2023 Secondary Market Survey, including non-traditional investors such as public and private pension plans, sovereign wealth funds with a dedicated secondary allocation and family offices

Evercore estimates **transaction volume in 2023 amounted to \$114bn**, a 15% decrease from the record year witnessed in 2021; however, an \$11bn uplift vs. 2022. Of the \$114bn of capital deployed, 52% was concentrated across the top 10 investors by volume

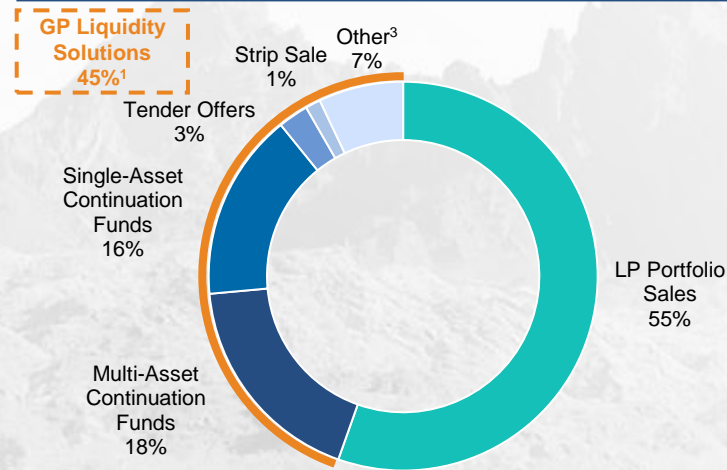
2023 Secondary Market Key Characteristics

At 55% of transaction volumes, LP portfolio sales again accounted for the majority of transaction volumes in 2023 (vs. 54% in 2022), though H2 was more balanced

2023 Transaction Volume H1 vs. H2 (\$bn)



Split by Type of Transaction¹

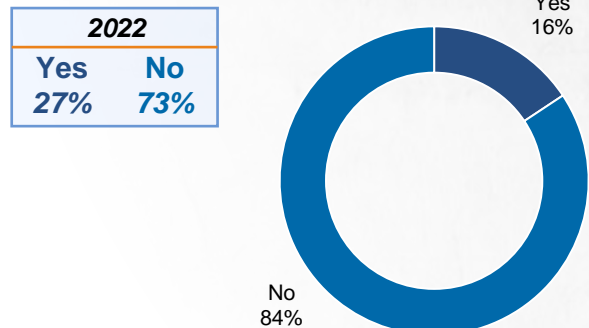


Commentary

- After a relatively muted H1, transaction volumes increased meaningfully in H2. Desire for liquidity and a narrowing bid-ask spread drove LP-led transactions, representing 55% of full year (of which, 39% was recorded in H1 and 61% in H2)
- For GP-leds, Single-Asset continuation funds declined slightly as a percentage of overall transaction volume (at 16% vs. 19% in 2022) while Multi-Asset continuation funds volume stayed flat at 18%
- In the context of higher interest rates and more challenging credit markets, only 16% of respondents reported using third-party leverage in secondary transactions in 2023 (vs. 27% in 2022)
- Similarly, LTV ratios also fell with the average debt-funded portion of deals falling from 37% in 2022 to 32% in 2023

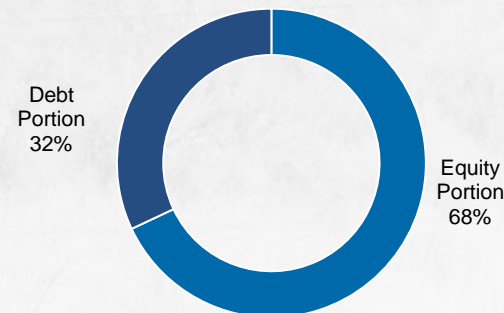
Use of Third-Party Leverage in Transactions²

Excludes fund-level working capital facility



Average LTV ratio for Third-Party Leveraged Deals²

Excludes fund-level working capital facility



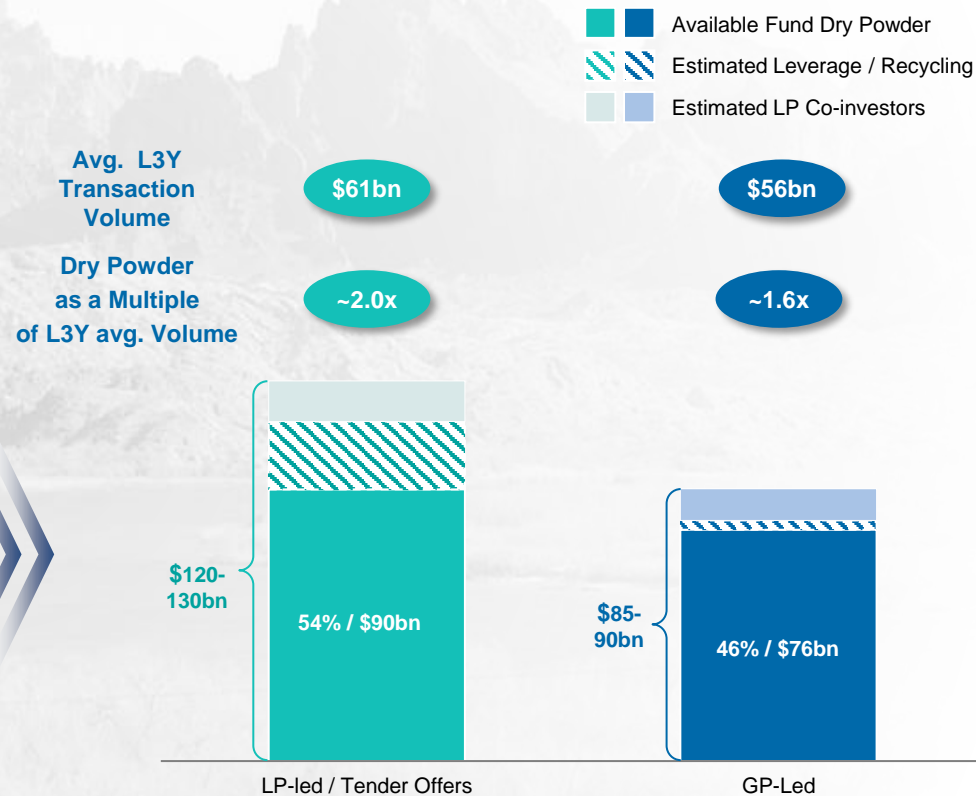
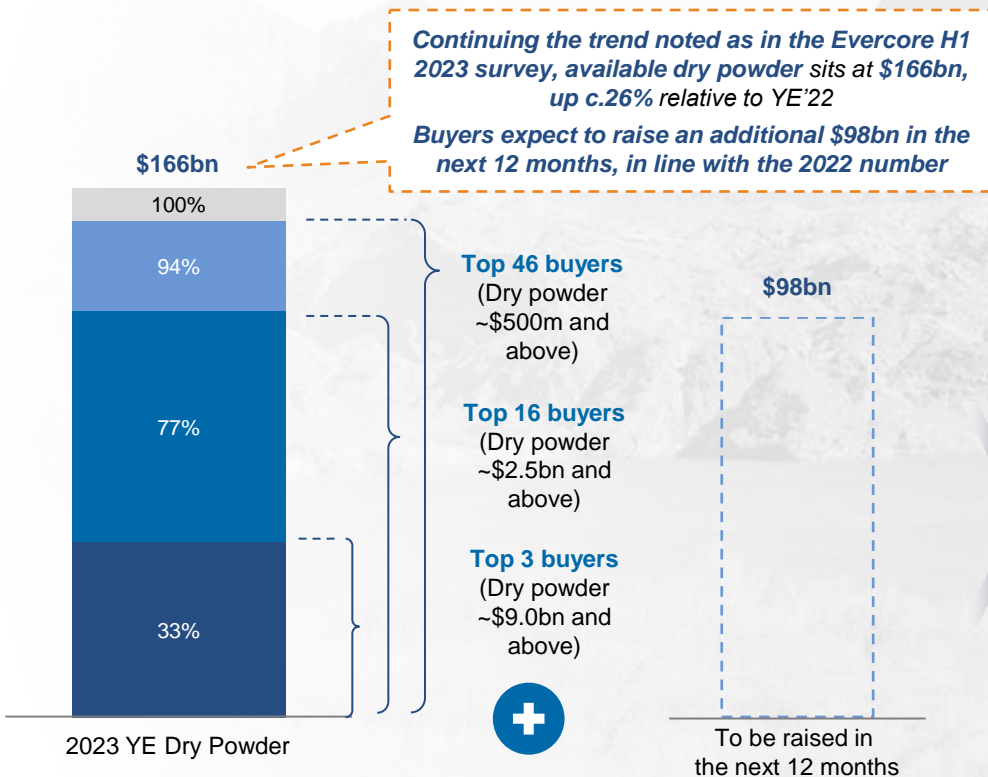
Secondary Dry Powder Availability

Despite many respondents reporting a challenging fundraising environment in 2023, secondary dry powder levels are strong and there is significant capital available to be deployed going into 2024

After a Year of Successful Fundraises, Dry Powder Sits at \$166bn...

... And Provides Sufficient Capacity for a Strong Start to 2024

Fund Dry Powder and Expected NTM Fundraise as of December 2023



"This is not an easy market, but capital is available"

"Secondaries remains robust, and there is a lot of appetite for the secondary strategy as LPs are becoming more familiar with the space"

"Secondaries remains an 'in-favour' strategy among LPs in this environment"

- Global secondary firms



Fred Stonell MD

"While 2023 was as a more challenging fundraising environment overall, several major buyers announced sizeable closes in 2023 and are being increasingly sophisticated in partnering with co-investors for deployment in the secondaries market, often at scale in GP transactions"

In a time of higher interest rates, leverage has become less attractive for most buyers, though capacity remains, and has enabled the use of deferral"

The Outlook for 2024

As LP-led pricing increased in 2023, buyers' appetite for GP-leds regained traction in H2. The ensuing equilibrium, if sustained, will provide a highly supportive backdrop for a record-breaking 2024 in secondaries

2023 – Buyer Predictions vs. Actuals

	<u>Prediction for 2023</u>	<u>2023^A</u>
LP Stakes	\$60-65bn	\$63bn
Single-Asset CVs	\$30-35bn	\$18bn
Multi-Asset GP-led ¹	\$25-30bn	\$25bn
Other ²	\$15-20bn	\$8bn

The average of buyers' predictions in January 2023 was a surprisingly accurate forecast of the increase in 2023 LP volume, on the back of a muted 2022

Overall GP-led volumes came up short of buyers' predictions – while performing strongly, expectations were for a new record to be set, eclipsing 2021

Comparatively, Multi-Asset transactions volume came closer to expectations than Single-Assets while tenders, strips, preferred equity and structured solutions were a good share of the deals closed in 2023

What to Expect in 2024



Alex Longden
MD

"2023 saw the combination of a strong need for LP liquidity with the majority of the secondary market fundraising. Multiple successful raises allowed the GP-led market to re-open for quality assets.

Momentum into 2024 is strong - for both LP- and GP-led transactions"



Supply /
Sellers

Given the expectation of an **unrushed re-opening of IPO markets** and stickiness of high interest rates further **constraining sponsor M&A**, many buyers commented that they believe **distribution pace will remain slow through 2024**

LPs are therefore likely to continue (i) **proactively seeking liquidity** in the secondary market and (ii) **expecting their GPs to also turn to the secondary market** to offer liquidity

GPs will continue to seek to **improve their DPI**, which has become a **key point of scrutiny** in a challenging fundraising environment



Demand /
Buyers

Current levels of **dry powder are at a historic high** at **\$166bn**, which is fuelled by large fundraises by big secondary investors (e.g. Lexington, SP, GS, etc.) with **record closes announced by incumbents**. Several **new entrants have also entered the market**, notably direct private equity firms and individuals targeting GP-led transactions

While capital is available, buyers **remain very selective in deploying it**. Several buyers have **shifted towards "more attractive" mid-market opportunities** with "better deal characteristics" overall and typically a higher likelihood of closing



Pricing

With leverage expected to remain expensive for a few more quarters, persistent inflation and elevated macro uncertainty, we don't expect **LP portfolio pricing to revert to 2021 or COVID highs in the near term**. Conversely, the **upward pricing correction of 2023 is carried forward into 2024**, which should contribute further momentum to the GP-led market



Justin Resnick
MD

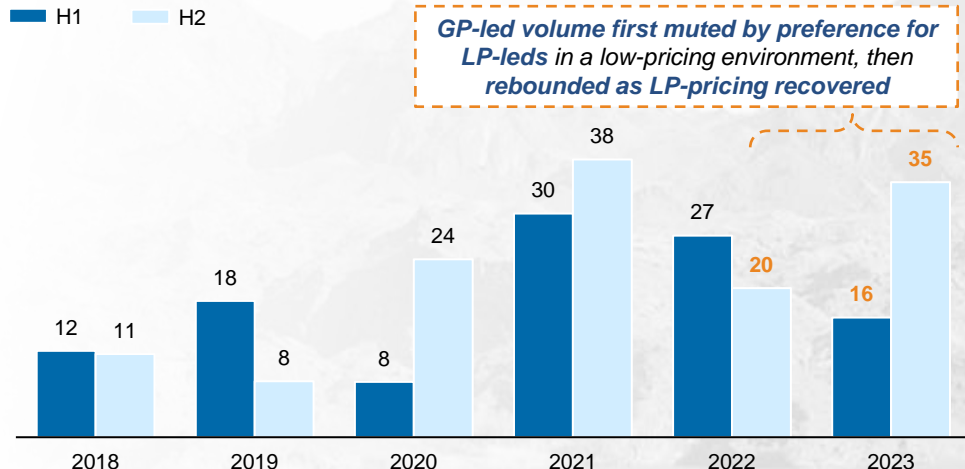
"The market appears particularly balanced as we start the year, supporting the idea that **2024 has the potential to be the biggest year for secondary volume to date**, including increased adoption by credit and other asset classes"

Focus on GP-led Transactions (1/2)

GP-led transactions regained momentum in H2 2023, which closed as the second largest half ever for GP-leds, with buyers doubling down on Industrials (+7% YoY), Financials (+5%) and Healthcare (+3%)

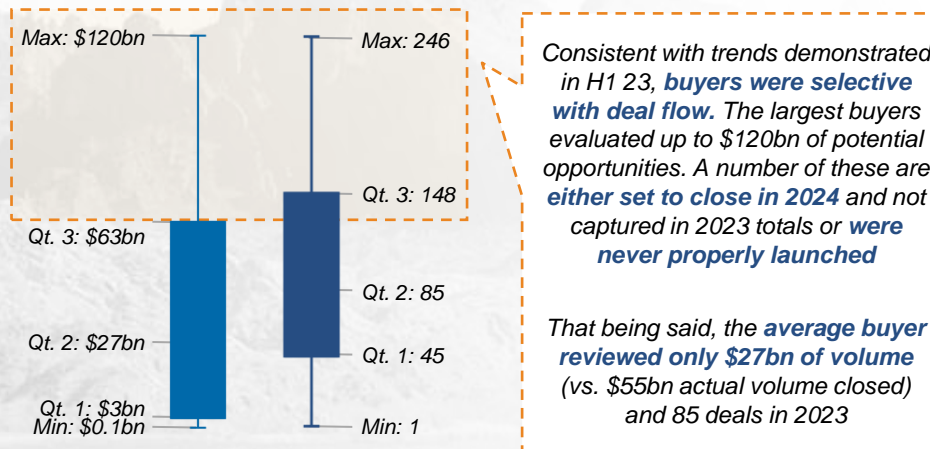
2023 Marked the Second Largest Year on Record for GP-Led Transactions

Transaction Volume Over Time (\$bn)



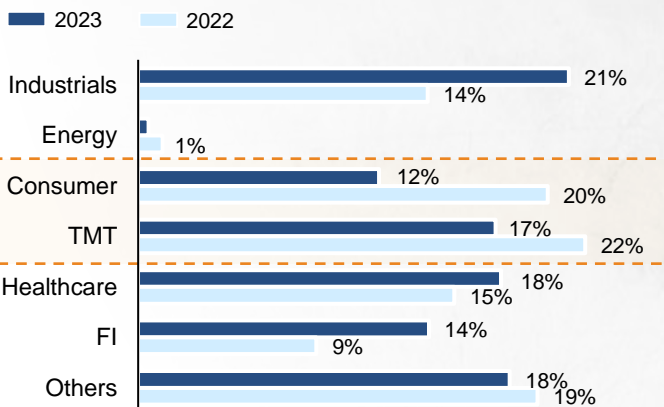
High Quality Deal Flow in 2023 Meant That Buyers Could be More Selective

GP-led Transaction Volume Evaluated in 2023 (in \$bn and number of deals)



Amid a Challenging Macro, Cyclical Industries Fell as % of Transactions

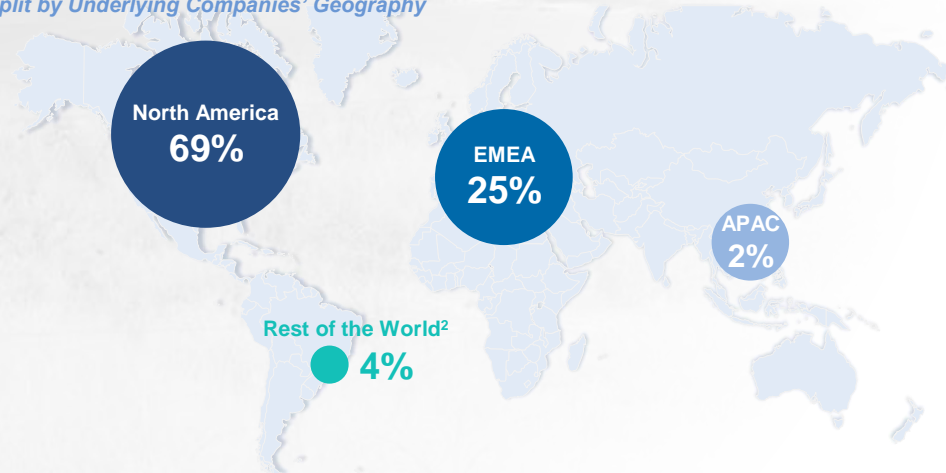
Split by Underlying Companies' Sectors



A combination of market slowdown and steep pricing in 2023 saw consumer and technology deals fall out of favour relative to previous years now representing 12% of and 17% of volume vs. 20% and 22% in 2022

North America Remained the Most Dominant Geography by Volume¹

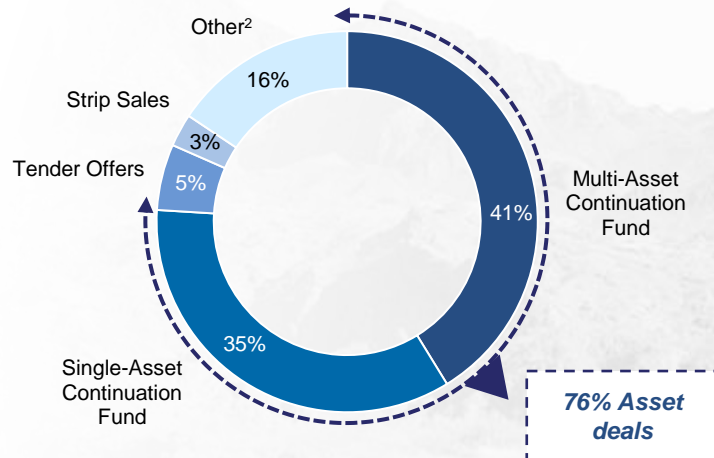
Split by Underlying Companies' Geography



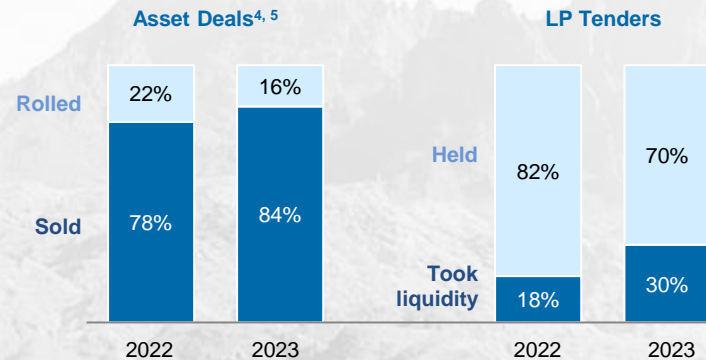
Focus on GP-led Transactions (2/2)

Asset Deals (Single- and Multi-Asset Continuation Vehicles) continued to represent the majority of GP-led deal flow at 76% as strip sales and tenders are generally less favoured by buyers

Split by Transaction Type¹



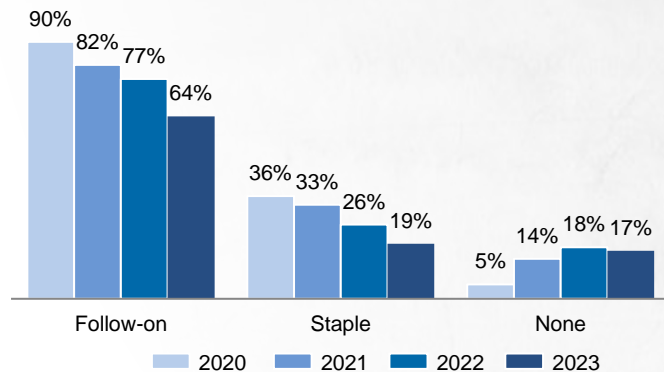
LP Roll / Sell Preferences: Asset Deals vs. LP Tenders¹



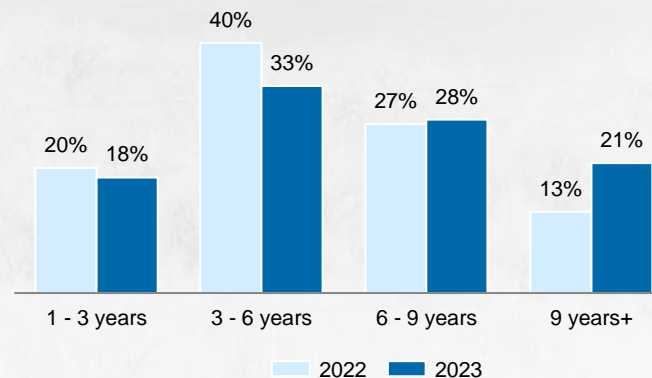
Commentary

- Historically, LPs have taken liquidity at a much greater rate in Asset Deals than in tenders, as they tend to be a targeted solution for assets requiring more time, (vs. tenders which have a broader fund-level application)
- In 2023, as Evercore data shows, this trend continued with **85% of LPs opting to sell** in Asset Deals. However, key market dynamics, including **better familiarity with continuation fund transactions and the growing sophistication of LPs**, will likely drive more LPs to capitalise on these opportunities going forward
- After a second year of slowing distributions, **buyers reported a marked increase in LPs taking liquidity in tenders, from 18% to 30%**, (supporting a 5 to combined 8% increase of total GP volume for tenders and strip sales)
- Unfunded capital as part of GP-led volume continues to drop**, suggesting that buyers are more selective with ways to provide new money

Investors Offering Follow-On and / or Staple Capital³



Average Age of Fund Involved in GP-led Deals¹



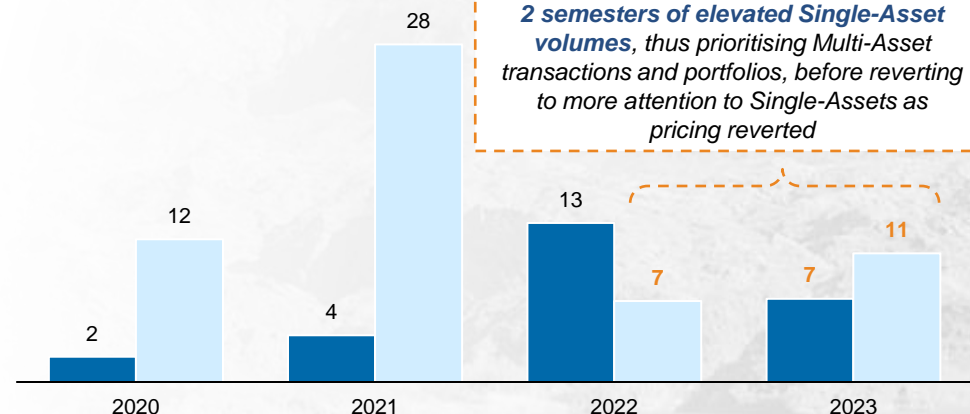
Focus on Single-Asset Transactions

At 35% of GP-led deals, Single-Asset transactions still represent a big part of the secondaries market, typically around star assets

Single-Asset Transactions Comprised 35% of Total GP-led Volume

Single-Asset Deal Volume (\$bn)

■ H1 ■ H2

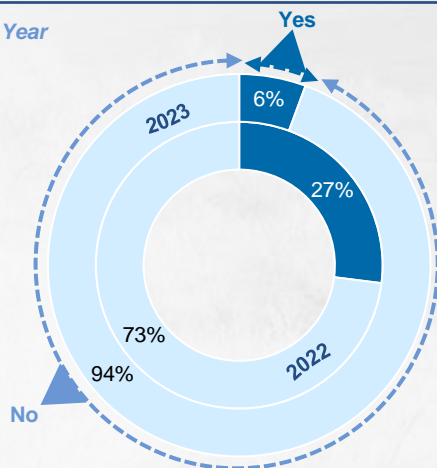


Buyers exhibited a preference for diversification in H2 2022 and H1 2023 after 2 semesters of elevated Single-Asset volumes, thus prioritising Multi-Asset transactions and portfolios, before reverting to more attention to Single-Assets as pricing reverted

Fewer GPs are Targeting Single-Asset Specific Fundraising¹

Raising a Dedicated Single-Asset Fund in the Next Year

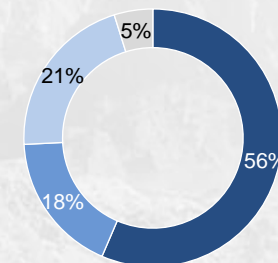
"The Single-Asset segment remains undercapitalized, however (i) secondary players scaling up, coupled with (ii) the growth of the syndicate market & (iii) new entrants from the direct GP world, will help alleviate the capital constraints over time, and support further growth in this part of the market"



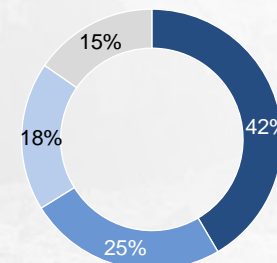
Joy Savchenko SMD

Single-Asset Deployment vs. Capacity in 2023¹

Largest Amount Deployed



Largest Amount that can be Deployed

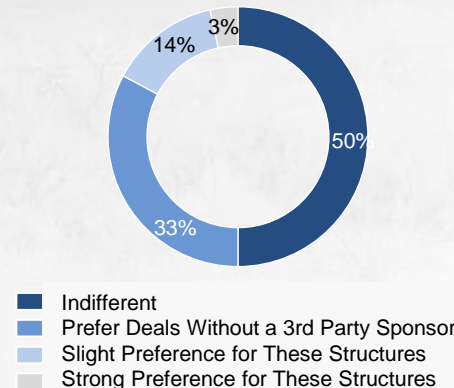


■ <\$50m ■ \$50 - \$150m ■ \$150 - \$300 ■ >\$300m

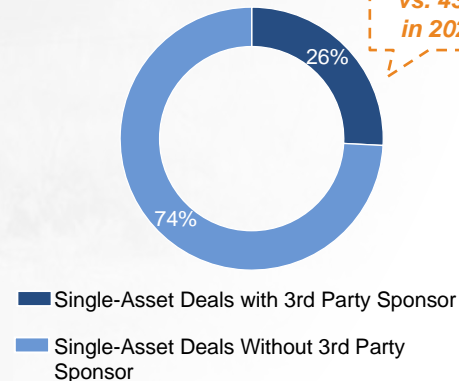
In 2022, 30% of respondents indicated a \$150-300m range for a max. potential ticket. In 2023, this figure dropped to 18%, as (i) the pool of buyers we surveyed has broadened, featuring more smaller groups, and now that (ii) 5% of participants are able to increase their maximum potential ticket >\$300m

Approximately a Quarter of Single-Asset Deals Involved a Third-Party GP¹

Buyer Perception of Third-Party Sponsor



Deals Closed Involving Third-Party Sponsor



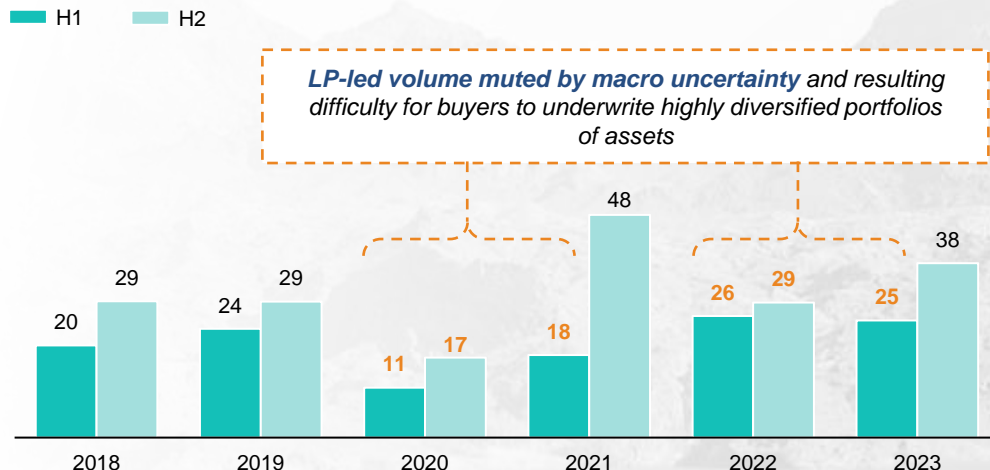
1. Based on number of respondents

Focus on LP-led Transactions (1/2)

The secondary LP market in 2023 was underpinned by an unmistakable trend: the need for liquidity. At 55% of total volume, LP transactions represented \$63bn of volume, driven by the attractive pricing as supply and demand of portfolios shifted

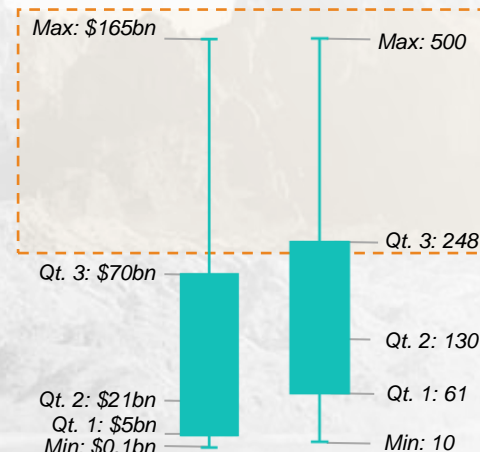
As Bid-Ask Spread Narrowed, Deal Flow Increased Sharply in H2 2023...

Transaction Volume Over Time (\$bn)



...and Pipelines Suggest FY Volume Could've Been Significantly Larger

LP-Led Transaction Volume Evaluated in 2023 (in \$m and number of deals)

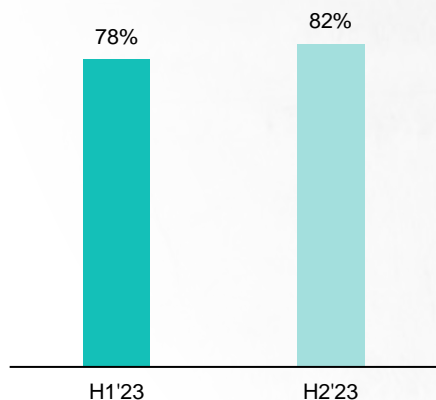


Similarly, as for GP-led transactions, data from the larger buyers point to significant overhang, with transactions either due to close shortly / unable to close in 2023

LP-led volumes reviewed align more closely with market volume than for GP-led figures, pointing to a higher closing rate

Despite Many Buyers' Perceptions, Pricing was Relatively Constant in 2023¹

Blended Average Market Pricing (% of NAV)



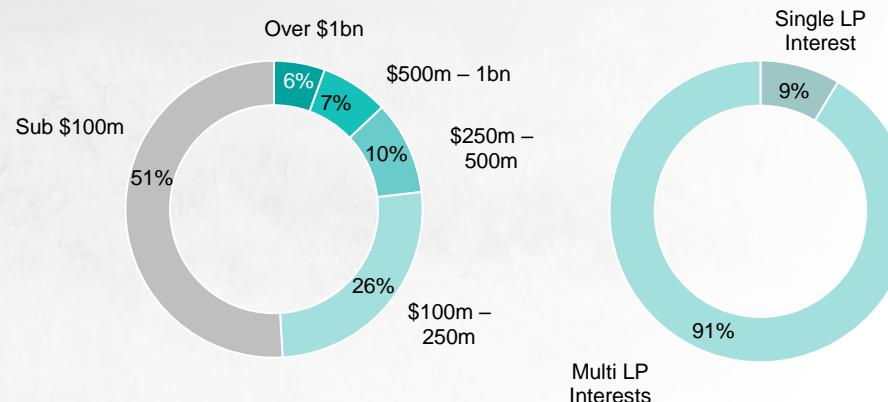
"LP transactions became overpriced in the last quarter of 2023"

"There was a wide bid ask spread in 2022 and Q1 and a narrowing of spread and greater number of transactions in H2 2023"

"Pricing in H2 in particular reflected buyers' willingness to pay up for good managers and good funds. Eclectic portfolio sales were harder to transact on even with high discounts."

- Global secondary buyers

Split by Size of LP Interest Portfolio

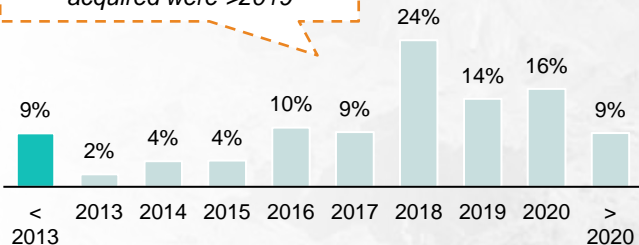


Focus on LP-led Transactions (2/2)

Relative to 2022, the proportion of very young funds was significantly reduced, as buyers aimed to focus on portfolios offering better nearer-term liquidity profiles

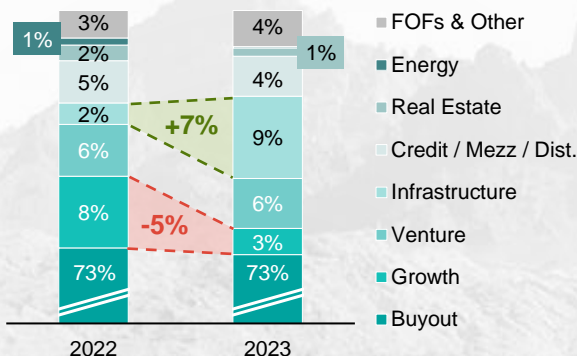
Split by Fund Vintage of LP Stakes Acquired¹

In 2023, buyers were able to purchase older portfolios again, relative to 2022 where only 23% of LP stakes acquired were >2019

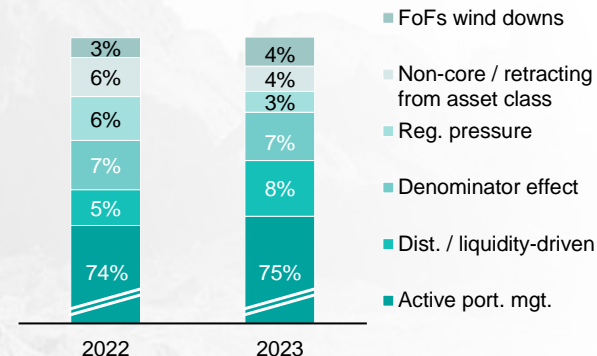


63%

Split by Underlying Fund Strategy¹



Active Portfolio Management Remains the Main Reason for Sale¹

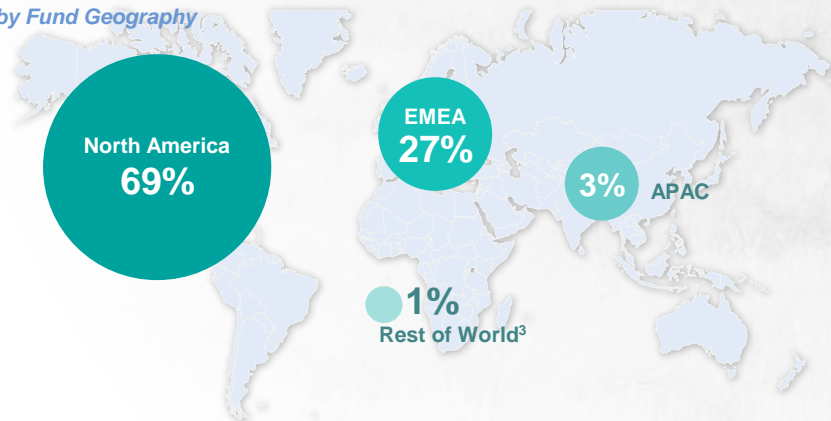


David Markson
SMD

"In 2024, we anticipate a potential record-breaking year for LP secondaries, driven by heightened demand and substantial dry powder, coupled with a sustained influx of LP interest supply early in the year. Despite a general shortage of regular exit activity for LPs, GPs are poised to re-enter the fundraising market following a subdued 2023. While LPs aren't facing liquidity constraints, they are keen on supporting core GPs and maintaining a diversified portfolio across vintage years. The strategic utilization of tactical LP sales and other forms of portfolio liquidity is a key approach, especially amidst the return to an optimistic market sentiment and preceding a second half of the year marked by significant elections around the world"

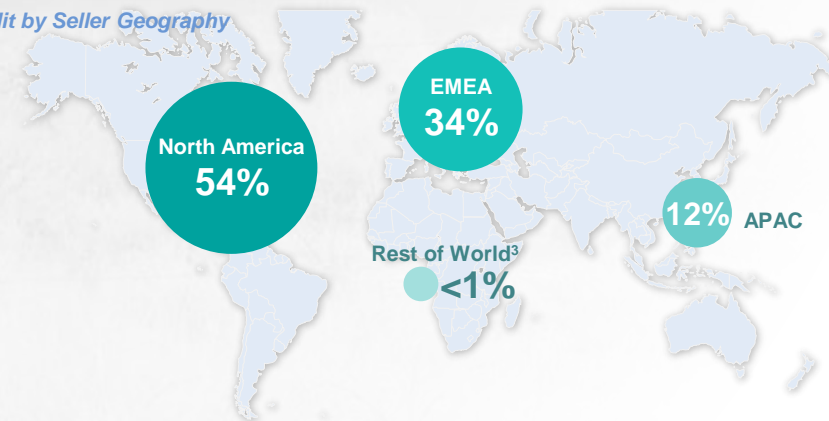
While the Vast Majority of Funds Sold are US and Europe-Focused²...

Split by Fund Geography



...Asian Sellers Represent a Significant Share of the Market²

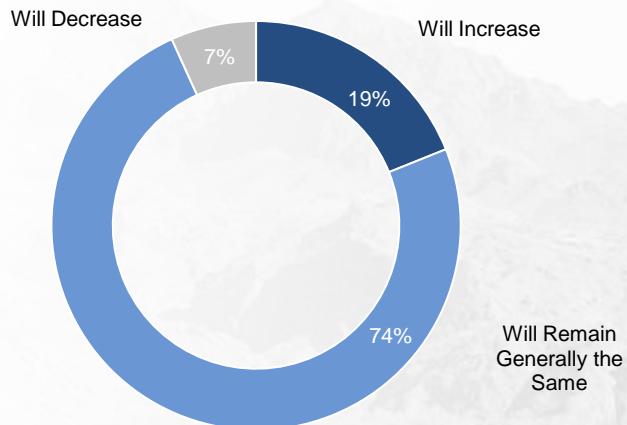
Split by Seller Geography



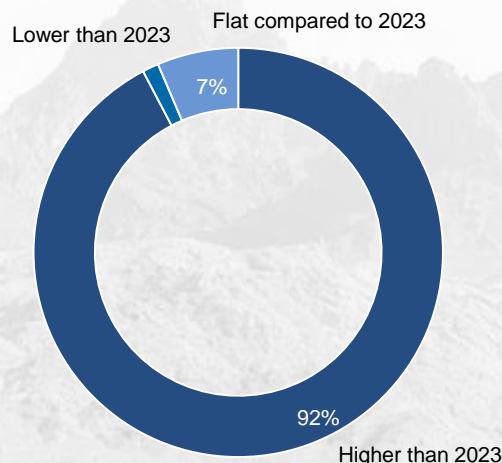
Buyers' Predictions for 2024

Broad market consensus is that secondary transaction volumes in 2024 will exceed 2023, with LP-led deal flow expected to account for ~50% of transaction volumes

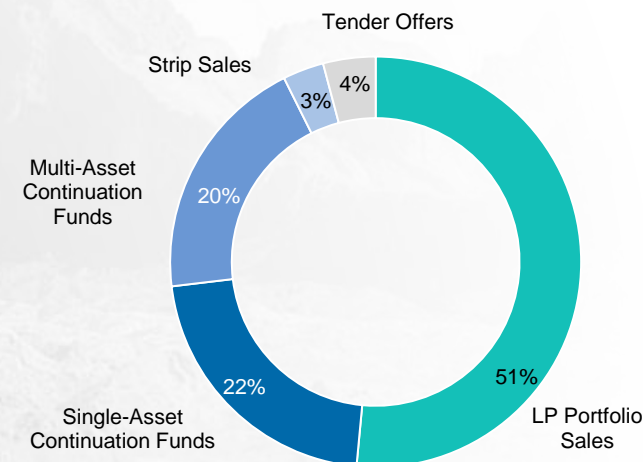
Expected Valuation Levels¹



Expected Secondary Market Volume¹



Expected Split by Transaction Type¹



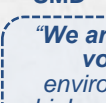
Predictions for 2024¹

	2023 _A	Prediction for 2024
LP Stakes	\$63bn	\$67-72bn ↑
Single-Asset CVs	\$18bn	\$27-32bn ↑↑
Multi-Asset GP-led ²	\$25bn	\$25-30bn ↑
Other ³	\$8bn	\$7-11bn ↓



Dale Addeo
SMD

"A number of direct private equity firms and individuals enter the secondary universe to try and capitalize on the perceived growth ahead, in particular related to GP-led transactions"



Ryan Rohloff
SMD

"We are entering '24 with the strongest structural support for significant volume growth in recent memory – a persistent limited distribution environment has led to record backlog while buyside dry powder is at a new high watermark. It seems that only a macroeconomic shock could de-rail YoY volume growth"



Francesca Paveri
Fontana
SMD

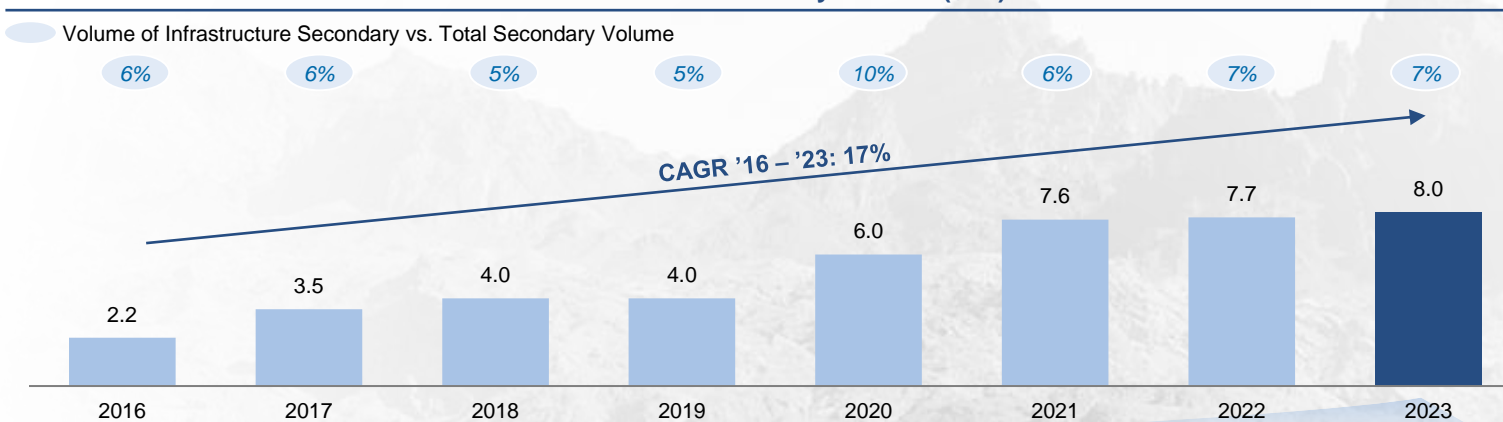
"In 2024, we expect GPs to continue executing Multi-Asset deals with the aim of returning a significant amount of capital to LPs, especially ahead of fundraising. To retain exposure to their best performing companies, we also expect to see more Single-Asset deals; some of these will be of significant size and may comprise of a mix of direct investment stakes, secondary buyers and the broader syndicate universe"

1. Based on number of respondents
 2. Includes Multi-Asset Continuation Funds, Strip Sales, and Tenders
 3. Other includes preferred equity, direct transactions & structured solution

Focus on the Infrastructure Secondary Market

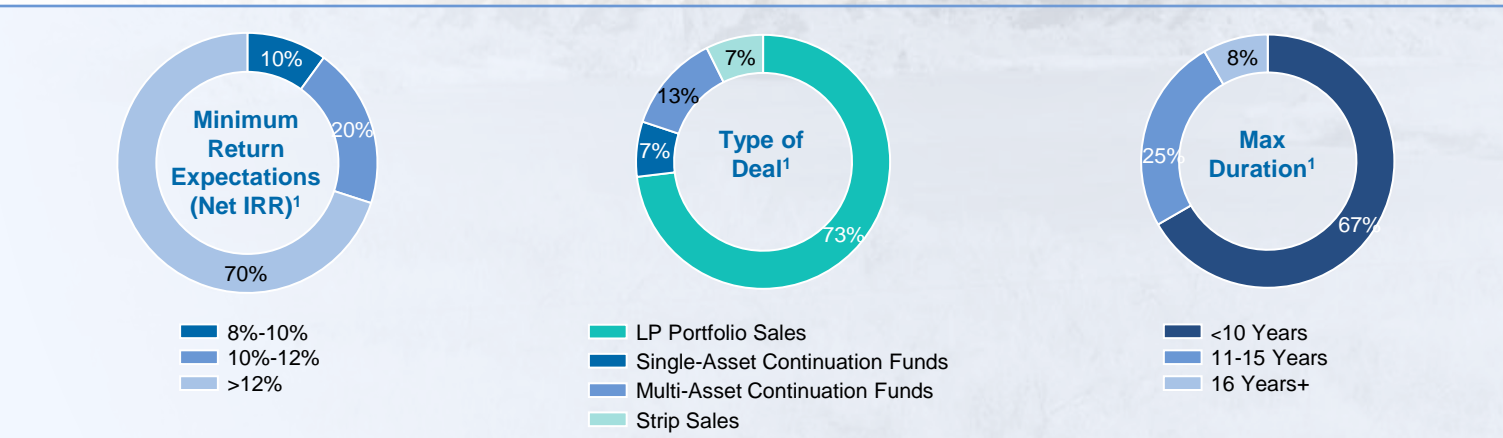
A handful of very large LP portfolios were acquired by several buyers as a mosaic and accounted for a very large share of the total market, which allowed infrastructure volume to increase again in 2023

Infrastructure Secondary Volume (\$bn)



\$8.0bn
Total Volume Closed (7% of total)

- The infrastructure market in 2023 has been characterised by **several outsized LP transactions**, weighted towards sellers based in Asia and the US
- While a lot of capital has been raised, these **sales have consumed a lot of the dry powder**, which buyers will need and aim to replenish in 2024
- The “core” part of the market is **not properly served by the secondary market**, with no buyers reporting **net IRR expectations below 8%** and limited appetite for **longer-duration assets**
- It will be **interesting to see how the secondary market may be impacted by large, recently announced acquisitions of infrastructure platforms** by groups such as BlackRock, CVC and General Atlantic



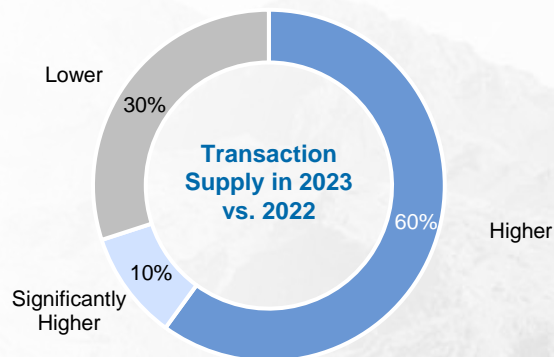
Jasmine Hunet Lamourille
SMD

“Infrastructure remains one of the fast-growing (and still undercapitalised) sub-sectors of secondaries - large dedicated specialist funds are now being raised and are deploying in mostly higher-returning opportunities in the core+ / value-add space. Large diversified LP portfolios have traded last year, and we expect that trend to continue into 2024, alongside a few well-selected, high-quality GP-leds. Non-specialist buyers (primary allocators) are also key market participants”

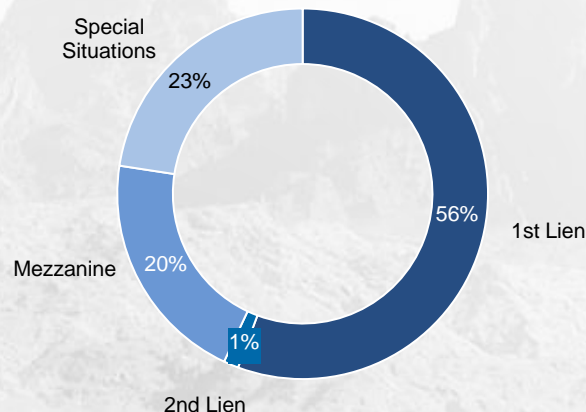
Focus on the Credit Secondary Market

With \$5.8bn of transaction volume in 2023, representing approx. 5% of the secondary market in 2023, private credit secondaries is expected to be an attractive area of growth for secondary investors in the coming years

Market Supply¹



Split by Strategy¹



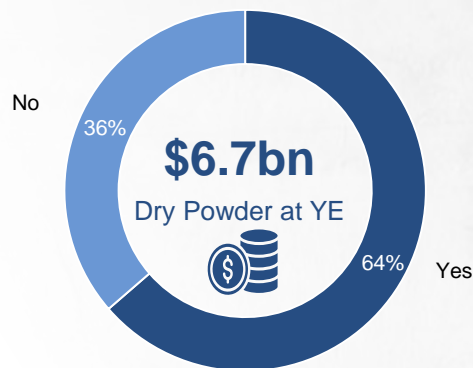
\$5.8bn

Total Volume Closed (5% of total)

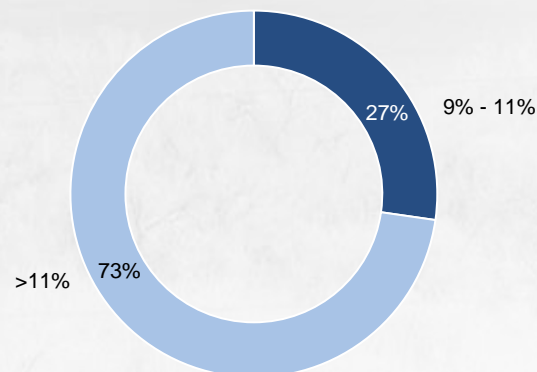
- Credit continues to be a **source of potential step-function growth for the secondary market**, spurred by **direct lending tailwinds**. However, despite the new entrants and good fundraising momentum, **volume remains relatively muted**
- For **2024 to be a true break-out year** for credit, we will look out for one or more of the following to materialise: (i) lower rates **reducing** investors' cost of capital and **bid-ask spread** with it, (ii) continued education of credit GPs and **greater acceptance of secondaries**, balancing LP- and GP-led volumes, (iii) investor **appetite broadens beyond senior credit**, and / or (iv) **successful fundraising efforts** enhance market capitalisation and competitive dynamics
- **Higher rates supported returns in 2023**, also limiting the overall volume, as sellers who could do so, held on to their credit portfolios

Dry Powder & Fundraising²

Fundraising in 2024



Minimum Unlevered IRR Target²



Contact Information

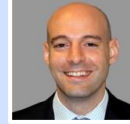
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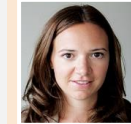
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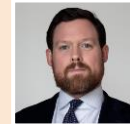
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