White paper

The hidden challenges of exploding secondaries market growth

6 minute read

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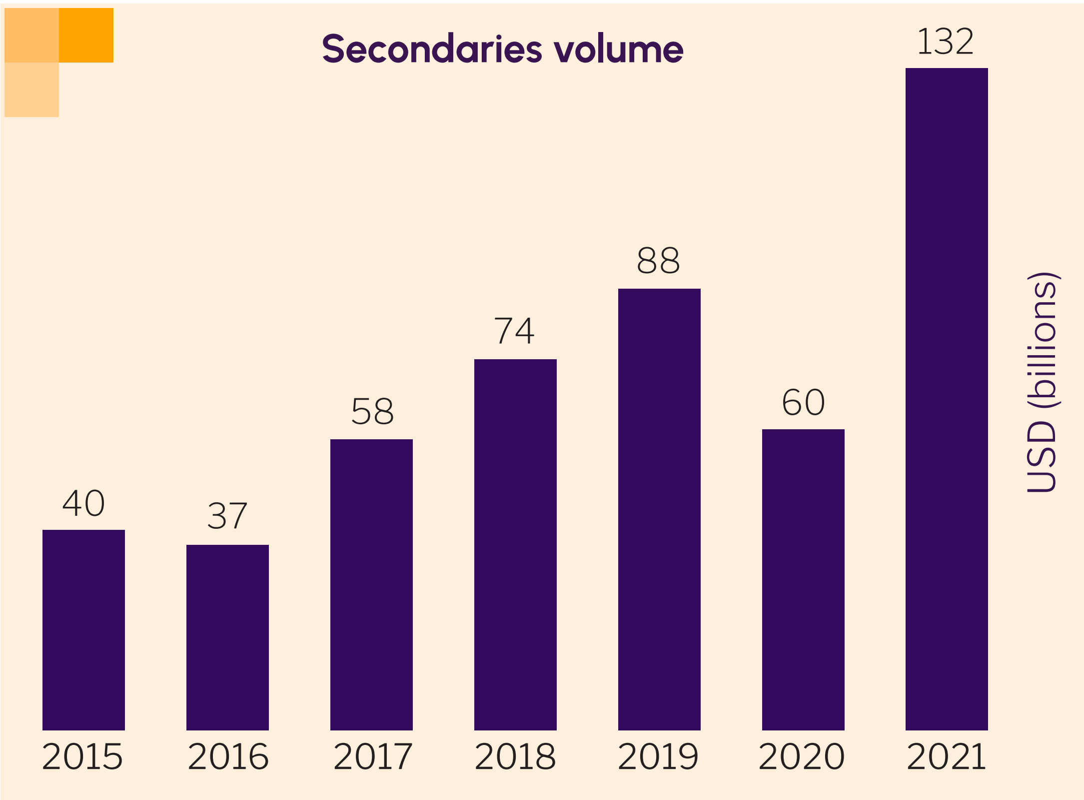
Market size

The secondaries market is booming, with transaction volumes reaching $132 billion in 2021. Established secondaries players continue to grow and more asset managers are expanding into the space, closing new secondary funds and exceeding fundraising targets. Even larger traditional players are acquiring specialist secondaries firms.



Jefferies LLC, July 2021, Global Secondary Market Review

Market forecast

By all accounts, this growth is set to continue for the foreseeable future. Vincent Gombault, co-founder of Ardian, predicts that we should expect secondaries transaction volumes to be as high as $2 trillion by 2030. It is clear there are predictions of significant growth across the secondaries market, which presents increasing opportunity to a wider pool of investors.

The desire for liquidity and/or reduction in exposure to future capital calls are two of the main drivers of change. The result is that investors continue to sell stakes, even in funds that are outperforming the market.

There has also been the growing demand for secondaries due to investors needing to rebalance their exposure to private markets.

On the other side of the deal, buyers are eager to get into the market quickly, without committing to long lock-up periods. Compared with traditional private investments executed at fund inception, buyers have significantly more asset-level information available to them for the basis of their decisions. Carrying out independent valuation of all assets quickly and efficiently is key to capitalizing on this data-rich deal environment.

Recent News and Events

Franklin Templeton acquired Lexington Partners

PGIM acquired Montana Capital Partners

Coller Capital raised a $9bn secondaries fund

LGT Capital Partners raised a $6bn secondaries fund

CVC acquired Glendower Capital

The challenge

The challenge is how to access the valuable content within a plethora of unstructured data that is provided by the seller. Today, most buyers are manually extracting data to conduct their due diligence and feed-pricing models. As the market continues its growth trajectory, this manual paradigm becomes increasingly challenging.

For the market to continue its momentum, technology must advance at the same rate.

There are some consistent themes recurring across market participants, the wider ecosystem and industry reports:

> **"We only look at data from the top 20% of assets on a deal in any detail"**
>
> **"Being too slow to mark a deal can lose us a competitive advantage over the other interested parties"**
>
> **"We don't have the manpower to compete with the larger players in the market, so therefore have to feed off the scraps that fall down to us"**

Assessment of deal quality and pricing in the secondaries market is complex, requiring collection and processing of a large number of data points at the fund and underlying asset level. This data is then fed into proprietary secondary pricing and valuation models, typically in the form of excel spreadsheets, which is a less-than-optimal form of storage.

The size of these deals can vary from general partner led, single-fund, trophy asset opportunities to limited partner led, with over 100 fund positions. The content used to analyse these deals comes from a diverse and data-rich set of documents. Speed, scalability and accuracy are therefore key to operating successfully in this space. Not only this, but such processes are undertaken manually, meaning costly, inefficient, time-consuming and often error-prone results.

Compounding the challenge is the inability to outsource this process due to its time-sensitive nature, meaning this activity is undertaken by front-office teams. Expensive resources, analysts and associates have to carefully trawl through these documents and rekey data points manually, extracting metrics right the way down to company financials.

All of this makes it seemingly impossible for buyers to strike the right balance between speed, scalability and accuracy without the occasional mis-valuation or missed opportunity.

The solution

There is an absence of automation technology to modernise the secondaries reporting landscape. As the sector grows quickly, so too must the technology to support such increasing interest. There is a great need for more sophisticated solutions, specifically to minimise time spent acquiring, condensing and analysing various data points in a dynamic and responsive manner.

Powered by proprietary AI and machine-learning techniques, Accelex automates processes for the extraction, analysis and sharing of critical investment performance and transaction data. Putting technology in the hands of our clients to simplify the demanding workflow of secondaries participants, delivering tangible benefits including, scalability, auditability, time and cost savings.

Accelex provides a solution to tackle and automate the majority of pain points in the secondary due-diligence process:

- **Sourcing and categorising documents versus manual investor portal access and document classification**
- **Fund, asset and investor identification versus complex master-entity data management processes**
- **Accurate and dynamic data extraction using our pre-trained intelligence engine versus manual data rekeying**
- **Validating with pre-built systematic checks and business rules versus error-prone extraction and often inaccurate reporting**
- **Delivery of previously and newly extracted data directly into valuation models versus accessing and updating, or even duplicating, previously completed work**

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Interested to learn more about the Accelex solution?

Discover the benefits and how our cutting-edge technology could be applied to your secondaries workflows.

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Interested to learn more about the Accelex solution?

Accelex enables better investment decisions for sophisticated investors and allows asset servicers to scale their offering. Our platform supplies a more transparent and efficient way to work, while revealing deeper investment insights from difficult-to-access financial documents.

Discover the benefits and how our cutting-edge technology could be applied to your secondaries workflows.

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