Private Equity Secondaries: A Comparative Analysis on the US and Chinese Markets

By

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B.Econ in Finance
University of International Business and Economics, 2017

SUBMITTED TO THE MIT SLOAN SCHOOL OF MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF SCIENCE IN MANAGEMENT STUDIES
AT THE
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

MAY 2024

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Submitted to MIT Sloan School of Management
on May 7, 2024 in Partial Fulfillment of the
requirements for the Degree of Master of Science in
Management Studies.

ABSTRACT

Since its inception in the early 2000s, China's private equity secondary market has evolved dramatically. Despite its fast growth, exit strategies in China’s private equity market lag, especially as tighter IPO regulations complicate exits, undermining liquidity and returns. In contrast, the U.S. benefits from a robust secondary market, underscoring its critical role in the maturity of the private equity industry.

This thesis employs a mixed-methods approach to explore the U.S. private equity secondary market's evolution and to assess the status and challenges of China's private equity secondary market. The U.S. market enjoys a well-established regulatory environment, professional intermediaries, and advanced trading platforms, contributing to its efficiency and liquidity. Conversely, China's market, despite its growth, grapples with regulatory insufficiencies, professional gaps, and opaque transactions. Enhancements to China's legal framework, professional services, and trading platform functionalities are proposed to foster market development and global integration, aiming to enrich both academic discourse and provide practical guidance for stakeholders.

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1. INTRODUCTION

1.1 Private Equity Secondary Market Concept

Unlike the primary market, which deals with initial investments, the private equity secondary market's core is the trading of existing fund shares or equity in private companies held by funds.

According to Mason Paul and Utke Steven (2023) [1], the private equity secondary market encompasses both limited partner (LP)-led and general partner (GP)-led secondary transactions. Historically, LP-led secondaries have received more attention in both academic studies and real-world practices, with limited partners selling their fund ownership interests to new investors. GP-led secondaries, in contrast, involve general partners forming a continuation fund. The general partner (GP) transfers assets from the original private equity fund to a continuation fund at a slight discount, allowing the original fund's limited partners (LPs) to realize their gains.

However, according to Winchell WB (2010) [2], in the private equity secondary market, beyond the LP-Led and GP-Led secondaries mentioned above, there is another type of private equity secondary, known as direct secondaries, which involve purchasing private equity interests directly in a single investment portfolio.

This paper discusses all three indispensable types of private equity secondaries: LP-led and GP-led secondaries, which focus on market dynamics including the regulatory environment, transaction structure, and intermediary institutions; and direct secondaries, which emphasize the impact of online trading platforms.

1.2 Research Background and Objectives

In the ecosystem of the private equity industry, the secondary market plays an increasingly significant role. Its primary contribution lies in enhancing the liquidity of the private equity market, allowing investors (limited partners, LPs) to exit before the liquidation of the fund. This flexibility in rebalancing investment portfolios and improving asset liquidity is crucial for attracting a broader range of investors, especially those who concerned about long-term capital lock-in. Furthermore, the secondary market provides fund managers (general partners, GPs) with added investment flexibility. It allows them to restructure the fund's investor base as needed. Moreover, the secondary market gives GPs a clearer view of the market's valuation of their funds, which helps them refine and optimize their investment portfolios and strategies.

While developed markets like the United States have established robust secondary markets, China's PE industry, despite its rapid growth, still faces challenges in developing a mature secondary market.

Since its inception in the late 20th century, China's PE market has evolved through phases marked by shifting investor profiles, capital structures, and regulatory landscapes. However, the reliance on IPOs for LP exits has faced increasing challenges, highlighting the need for alternative liquidity avenues.

This research aims to provide a comparative analysis of the U.S. and Chinese PE secondary markets, identifying key factors driving the U.S. market's success and the barriers hindering China's market development. By examining the U.S. market's evolution, transaction mechanisms, and enabling factors, this study seeks to provide insights and recommendations tailored to China's specific context.

The significance of this research extends beyond academia, holding implications for practitioners, policymakers, and investors navigating China's PE industry. By shedding light on the secondary market's pivotal role and charting a roadmap for its development, this study aims to contribute to the efforts in developing China's capital markets, enhancing liquidity, and fostering a more mature PE ecosystem.

1.3 AI Policy

This paper's wording has been refined using an advanced AI tool to enhance clarity and precision. The changes focus solely on improving the language, not the content, to meet professional standards and ensure accurate communication. These modifications are subject to the author's review and adjustments as necessary.

2. LITERATURE REVIEW

2.1 Overview of the U.S. Private Equity Secondary Market

The U.S. literature reveals that research on its private equity secondary market primarily focuses on the transaction behavior of fund share transfers, the design of trading platforms, and the driving factors of transactions.

Bryon T (1997) [3] concentrated on the various transaction behaviors that early private equity investors engage in to enhance their liquidity levels before the expiration and liquidation of the fund. The study explores direct investments in the private equity secondary market among other innovative solutions, providing insights and summaries on liquidity management measures for early private equity funds.

Stephen.S (2009) [3] noted that although the private equity secondary market initially held a small market share, it has grown significantly. Considering the inherent liquidity limitations of private equity, investors have started turning to the secondary market for transactions, thus reducing liquidity risks. Investors are also increasingly inclined to invest in private equity funds with longer durations.

Mcredmond (2011) [4] brought innovation by introducing the concept of internet digital trading platforms, which auction private equity investment fund shares in real-time. This ensures rapid and accurate transmission of information between buyers and sellers, expanding over-the-counter market transactions. The platform charges commissions to both parties based on the transaction circumstances

Kleymenvoa (2013) [6] primarily investigated the transaction behavior of fund share swaps in the private equity secondary market, focusing on the driving and determining factors that affect the market's transaction activity level. Through empirical testing and analysis, the study found that transaction size, complexity, fund size, and macroeconomics significantly impact the liquidity of the private equity secondary market. This research helps us understand the main factors affecting the liquidity of this special alternative investment asset.

Nadauld T and others (2016) [7] explored the liquidity costs of the private equity secondary market transactions. The study examined the pricing and transaction characteristics of private equity investments when sold on the secondary market, finding evidence of liquidity discounts, i.e., the sale price of private equity investments on the secondary market is often lower than their estimated net asset value (NAV). The research also looked into factors affecting liquidity discounts, including the fund's year, size, and performance. These findings aid in understanding the liquidity risks of private equity investments and the factors to consider in secondary market pricing.

2.2 Overview of China's Private Equity Secondary Market

The Chinese private equity secondary market literature indicates that research primarily concentrates on transaction pain points and obstacles, such as valuation difficulties, the lack of unified standards, systemic voids, and high transaction costs. Moreover, there's limited research on how online trading platforms can empower the private equity secondary market in China. Drawing from foreign success stories, this is deemed a necessary path for the development of the secondary market in China.

Zhou Ang et al. (2014) [8] analyze and summarize valuation methods for the private equity secondary market from a theoretical perspective, dividing them into top-down and bottom-up approaches. The former requires an industry-standard calculation of Net Asset Value (NAV) as a basis for fund-level valuation adjustments; the latter involves analyzing all invested and non-invested fund shares individually, with a sum of adjustments for fund-level valuation. This method demands high transparency and is challenging due to the significant impact of different assumptions on fund cash flows.

Xing Binxin (2015) [9], by comparing the development histories of the Chinese and American private equity markets, points out that the introduction of the IPO registration system in China will further narrow the price gap between primary and secondary markets, thereby reducing the investment returns of private equity funds. Against this backdrop, seeking new exit strategies becomes urgent, and the operation of funds and market development are expected to align more closely with mature capital markets like the U.S., where reliance on IPOs for exits is not excessive.

Zhao Ya (2021) [10] discusses the development pain points of China's private equity secondary market from the perspective of Secondary funds, offering suggestions for market infrastructure, legal systems, and industry standards.

Wang Li (2022) [11] identifies obstacles to the development of China's private equity secondary market from a policy and regulatory perspective, proposing four recommendations: (1) enhance market functionality and promote the construction of regional equity trading platforms; (2) broaden exit channels to foster market development; (3) expand openness to foreign investment by drawing on the success of international secondary markets; (4) optimize the development environment through a collaborative effort to build the secondary market ecosystem.

Cheng Jiuyan et al. (2023) [12] propose solutions to issues like information asymmetry, limited exit channels, high transaction thresholds, and low transaction efficiency. Suggestions include utilizing blockchain technology to ensure the security and accuracy of online trading platforms, introducing quality intermediary services to address valuation challenges, and urging regulatory bodies to develop policies addressing different stages of secondary market transactions to fill systemic gaps.

3. METHODOLOGY

3.1 Literature Review

This involves an extensive literature review of relevant theories and research findings, including academic journals, professional books, research reports and so on. It integrates analysis on the development status, driving factors, policy regulation, and the theoretical basis and practical cases of the development of the private equity secondary market, providing a theoretical framework and background knowledge for the research.

3.2 Comparative Analysis

By employing comparative analysis, this methodology starts with the differences in the development of the private equity markets between China and the United States, aiming to deeply understand and identify the key drivers for the maturity of the private equity secondary market. Additionally, the research will focus on the transaction mechanisms of the U.S. private equity secondary market, summarizing core factors through detailed analysis of its participant behaviour, legal and regulatory framework, and other market dynamics. Moreover, it compares the presence and absence of all core driving factors in China's private equity secondary market, thereby revealing the gaps in maturity and efficiency of China's market and further identifying the main barriers to its development.

Based on the comparative analysis, combined with characteristics of China's capital market such as regulatory framework and market infrastructure, this research provides insights and strategies for the maturity and development of China's private equity secondary market.

3.3 Quantitative and Qualitative Analysis

This research summarizes and induces the transaction types, driving factors, potential challenges, and the role and impact of online trading platforms in the private equity secondary markets of China and the U.S. through literature review and comparative analysis.

Additionally, the research collects and analyses data and statistical results from the private equity industry, providing a quantitative description and analysis of the development status of the private equity secondary markets in China and the U.S.

4. The U.S. Private Equity Secondary Market

4.1 Development History

The development history of the U.S. private equity secondary market can be divided into three distinct stages: the incipient stage, the growth stage, and the digitalization stage. These stages are primarily based on the findings from *Secondary markets in private equity and the future of US capital markets*[13] (Cannon, Vincent T., 2007) and *Development of Non-Public Equity Secondary Market Platforms in the U.S.* [14] (Deng Ying et al., 2022)

The incipient stage began in 1982 with the establishment of the world's first true secondary fund, Venture Capital Fund of America (VCFA), founded by Dayton Carr. From 1991 to 1994, the U.S. stock market experienced a boom, leading to the rapid expansion of private equity. Between 1989 and 1999, as the private equity market matured, the management scale of U.S. secondary funds also rose swiftly. Notable players during this period included Landmark Partners, which invested in non-listed company equity and real estate; Paul Capital, a pioneer in non-listed company equity secondary market transactions; and Coller Capital, the first to target the global private equity secondary market. The establishment of the New York Private Placement Exchange (NYPPEX) in 1998 further enhanced the U.S. private equity secondary market trading hub, providing intermediary consultation, information matching, transaction execution, and database services for both parties involved in transactions.

The growth stage began in 2000 with the burst of the internet bubble, which significantly impacted the investment returns of private equity. Investors' confidence was severely hit, and the performance of non-listed company equity funds suffered due to substantial markdowns in stock market valuations. Limited Partners (LPs) sought to reduce their original commitments, forcing General Partners (GPs) to find new investors to take over fund shares, thereby greatly stimulating transaction demand in the private equity secondary market. Private equity funds also shifted towards long-term investment strategies, seeking sustained growth paths with companies. The prosperity of the private equity secondary market during this period offered new liquidity options for fund investors, with funds like Secondary Fund emerging as favorites in the private equity market. This market mechanism's adaptation and transformation not only provided investors with more flexible exit options but also injected new vitality into the stable development of the PE industry.

Since 2004, with the gradual recovery of the global economy, the U.S. private equity secondary market entered a new era of active management, sparking transaction demand centered around asset management. This was mainly manifested by an increasing number of fund managers proactively releasing tradable assets, while the market also attracted more investors. Driven by both supply and demand, the transaction size of the U.S. private equity secondary market continued to expand, the transaction process became increasingly standardized, valuation pricing became more reasonable, and the maturity of both parties in transactions gradually improved. The composition of participants in the U.S. private equity secondary market also became more diverse, including transaction advisors, law firms, accounting firms, valuation agencies, and various third-party intermediary institutions actively participating in transaction services, further aiding the growth and perfection of the market.

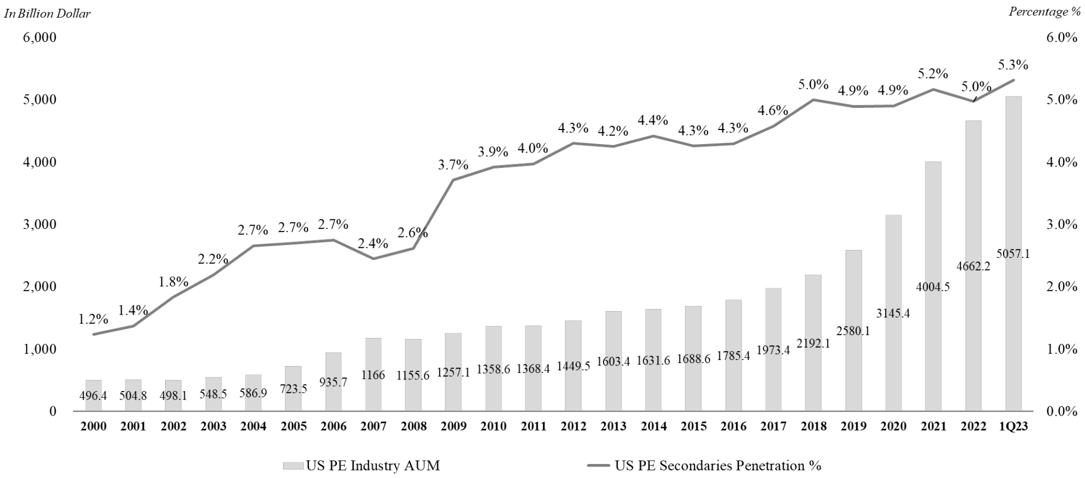
The digitalization stage began before 2008, with transactions in the U.S. private equity secondary market predominantly conducted offline and over-the-counter. However, after 2008, several trading institutions, including NASDAQ, began to experiment with financial innovation products that moved private equity secondary market transactions online. Under the premise of standardized transaction processes and procedures, different online trading platforms allowed transaction parties to break through the traditional spatial and informational limitations of private equity secondary market transactions, enabling some transactions to be completed and settled online. This shift became particularly pronounced after the 2008 financial crisis, with a series of U.S. private equity secondary market trading platforms to thrive.

Today, the U.S. private equity market has become an essential component of the capital structure, with its depth and breadth continuously increasing over the past few decades. The private equity secondary market, in particular, has witnessed the rise of a new growth area, where its role in providing liquidity, diversifying risk, and enhancing investment returns is increasingly significant. As the U.S. private equity secondary market continues to evolve, this field will undoubtedly continue to shape the future landscape of the private equity industry.

4.2 Overview of Current U.S. Private Equity Secondary Market

According to Preqin, as of March 2023, the asset under management (AUM) of the U.S. private equity secondary market has exceeded $5 trillion; from 2017 to the present, the penetration rate[1] of its secondary market has essentially remained at around 5%.

Figure 1 Private Equity Asset Under Management in U.S. And Its Secondary Market Penetration Rate

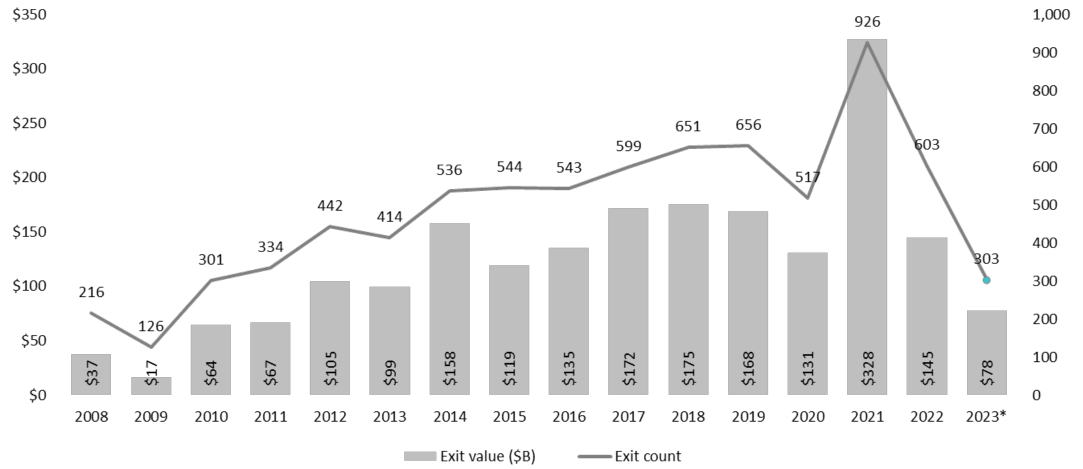


Source: Preqin

Furthermore, following the financial crisis of 2008 and the subsequent market recovery, private equity funds have shifted from passive asset sales to specialized active management. Against this backdrop, the U.S. private equity secondary market has shown a steady upward trend in both exit transaction volumes and numbers, peaking in 2021 with exit transaction volumes exceeding $300 billion and the number of transactions surpassing 900. Although the volume and number of transactions executed through the secondary market by U.S. private equity funds have both declined in the past two years, they are expected to gradually return to the historical average over the long term.

Figure 2 Exit Transaction Volume and Number of Transactions in U.S. Private Equity Secondary Market

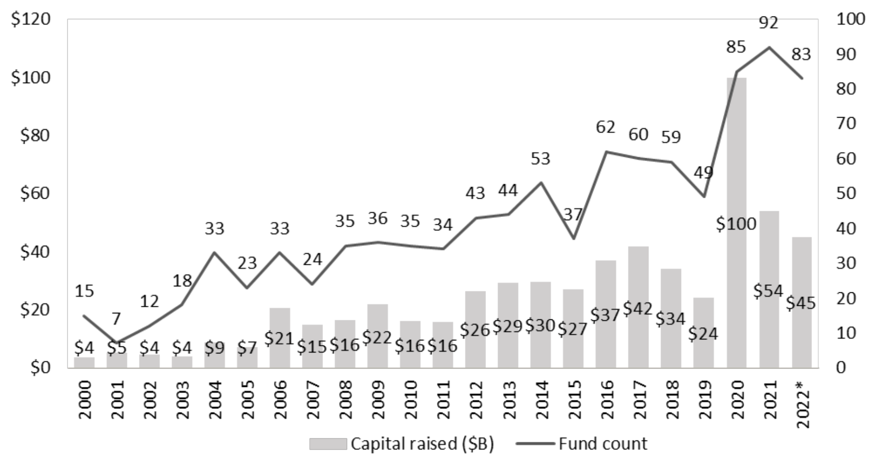
[1] Private equity secondary market penetration rate = Asset under management of the private equity secondary market / Asset under management of the overall private equity market



Source: Pitchbook

In terms of fundraising by secondary funds in the private equity market, as shown in Figure 4, the total fundraising scale and number of newly established secondary funds have shown upward trend since 2004. The primary reason is that more private equity fund managers and investors have begun to actively offer tradable fund shares or company equity held by the funds. At the same time, private equity investments, which account for a significant portion of alternative asset investments, have attracted an increasing number of buyers into the market, surpassing the $100 billion mark in 2021. Although the overall fundraising scale of secondary funds declined in 2022 and 2023, the activity level of the U.S. private equity secondary fund is expected to gradually warm up in the long term.

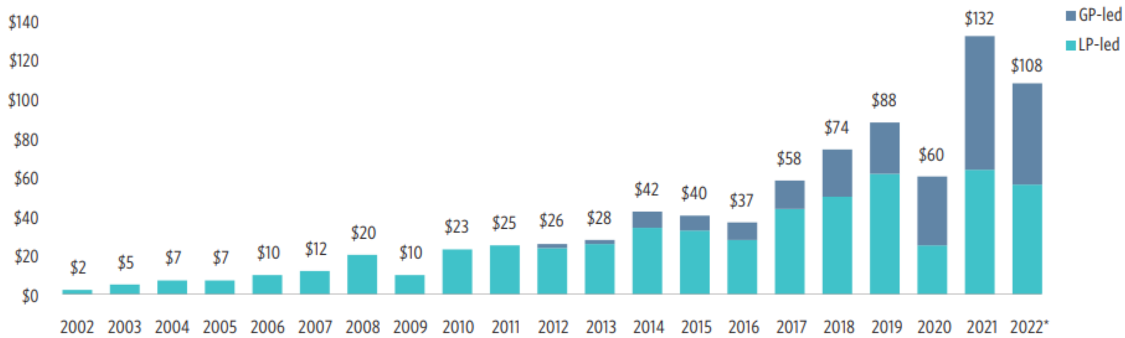
Figure 3 Total Fundraising Scale and Number of Newly Established Secondary Funds in U.S. Private Equity Secondary Market



Source: Pitchbook

As for the transaction types in the private equity secondary market, both in the U.S. and globally, the proportion of secondary market transactions led by General Partners (GP-led) has shown a sharp increase compared to those led by Limited Partners (LP-led). According to data from Pitchbook[16] and Jefferies Estimates[17], GP-led secondary transactions now account for 48% of global private equity secondary market volume, a significant rise from 7% in 2012. Particularly in 2020, due to the challenging exit environment during the COVID-19 pandemic, the proportion of GP-led secondary transactions increased to 58%. This shift is driven by various factors, including differing needs of fund investors and managers regarding asset diversity, return expectations, and distribution timing. Overall, the dynamic increase in the proportion of GP-led secondary transactions indicates that the U.S. private equity secondary market is adapting to the evolving liquidity needs of fund investors and managers.

Figure 4 Secondary Market Transaction Volume by Type ($B)



Source: Pitchbook, Jefferies Estimates

In summary, it's fair to argue that the current development status of the U.S. private equity secondary market indicates that it will play an increasingly important role within the U.S. private equity industry and become a vital component of traditional private equity funds' exit options and liquidity strategies. The continued evolution of this trend will have profound implications for private equity fund managers, investors, and other stakeholders.

4.3 Transaction Mechanisms

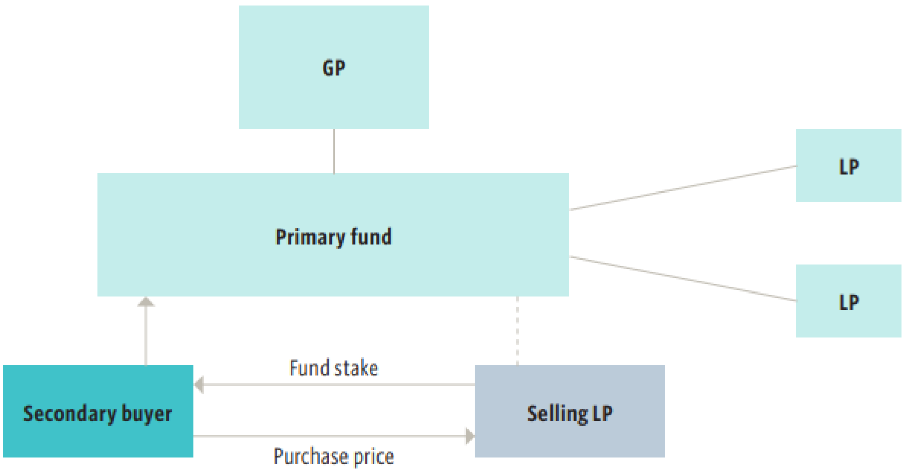
Currently, there are two genres of secondary transactions in the U.S. private equity market: fund share secondary and direct secondary transactions. Fund share secondary transactions, the assets of which are mainly fund shares, can be further divided into LP-led secondary transactions and GP-led secondary transactions. Direct secondary transactions involve non-listed company equity holders, such as founders, private company employee shareholders, early investors, etc., directly selling a portion of their non-listed company equity, with the transfer of assets being the company's ownership interests. Buyers can be funds, individual investors, or company management.

Notably, in recent years, with the advancement of internet technology, direct secondary transactions in the U.S. private equity market have gradually shifted from offline to online. The online transaction mechanisms digitalize procedures such as document signing, thereby overcoming spatial and temporal limitations, reducing transaction costs, and enhancing transaction efficiency.

4.3.1 LP-Led Secondary Transactions

LP-led secondary transactions refer to the act of a target fund's investors (LPs) selling their fund shares proportionally to other fund investors. The transaction structure is illustrated in the figure below [16].

Figure 5 LP-Led Secondary Transaction Structure



Source: Pitchbook

In LP-led secondary transactions, an LP may decide to sell their shares in a private equity fund for various reasons, including liquidity needs, portfolio rebalancing, strategy adjustments, or simply wanting to exit the investment early. Regardless of the reason, LP-led transactions follow specific steps and rules.

Firstly, the LP intending to sell must determine the fund shares to be sold and the price, often involving assessments of the fund's historical performance, current portfolio value, capital call, dividends, and market conditions. After establishing this information, the LP seeks potential buyers through intermediaries, including investment banks (e.g., Evercore, Greenhill Gogent, Credit Suisse, Houlihan Lokey, Lazard, UBS), due diligence firms (e.g., Tullet Prebon Alternative Investments, Cebile Capital LLP, Setter Capital Inc), electronic trading platforms (e.g., Nasdaq Private Market), social networks (e.g., SecondaryLink), and established fund broker-dealers (e.g., Campbell Lutyens, Park Hill Group, Triago). The buyers could be other fund investors or specialized secondary funds targeting the secondary market.

Once potential buyers are identified, negotiations between the LP and the buyer begin. This process may involve negotiating the price, establishing transaction terms, and conducting due diligence on the fund. Due diligence is especially crucial in these transactions to ensure the buyer understands the true value of the assets being purchased, given the involvement of non-public financial information.

After negotiations conclude and an agreement is reached, both parties sign transaction documents, including the purchase agreement and any necessary transfer documents. These documents must specify all transaction terms, including price, payment schedules, and any conditions or safeguards.

During the signing of documents, approval from the fund manager and/or other partners is typically required. Some funds may have rights of first refusal, allowing the fund or other partners to purchase the shares before external buyers. Additionally, the transaction may need to comply with relevant legal and regulatory requirements to ensure its legality.

Finally, once all necessary approvals and compliance steps are completed, the transaction settles, the LP receives the capital for the sold shares, and the buyer acquires the corresponding fund shares.

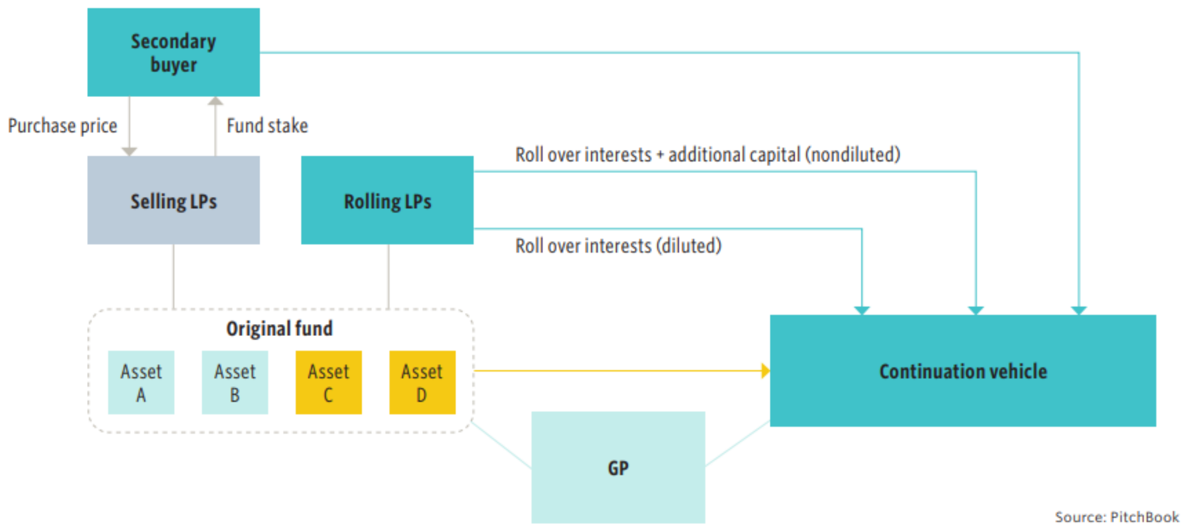
LP-led secondary transactions, one of the earliest transaction types in the U.S. private equity secondary market, offer a more flexible and efficient alternative to traditional fund exit mechanisms. They not only allow LPs to exit according to their needs but also increase the liquidity of the private equity market, providing additional investment opportunities for other participants in the secondary market.

4.3.2 GP-Led Secondary Transactions

GP-led secondary transactions involve the GP or its affiliates setting up a continuation fund to acquire all or part of the underlying assets of a target fund they manage, facilitating some original LPs' early exit and locking in returns for the fund. The specific transaction process is illustrated in the figure below [16]. Fund restructuring involves creating a new fund, managed by the GP or an affiliate, to purchase the assets of the target fund. This structured process allows original LPs to either seek liquidity by selling their fund shares or roll their interests into the continuation fund.

GP-led secondary transactions require the GP to inform the existing LPs of the transaction plan and obtain their consent. In some cases, LPs can choose to exit and sell their shares to new investors or continue holding their shares in the new continuation fund. This process often involves complex negotiations and coordination, as different LPs may have varying needs and preferences.

Figure 6 GP-Led Secondary Transaction Structure



Source: Pitchbook

Simultaneously, the GP must find new investors to purchase these shares or invest in the continuation fund. New investors might include secondary market funds, pension funds, family offices, etc. These new investors usually conduct thorough due diligence to assess the quality of the fund or asset portfolio being invested in. Since the assets involved are typically non-publicly traded private equity, valuation of these assets requires careful and professional attention. GP-led transactions often necessitate the involvement of third-party valuation experts to ensure the transaction price is fair and reasonable.

After an agreement is reached, the transaction needs to go through various legal and compliance procedures to complete. This may include new investor agreements, asset transfer agreements, and necessary legal documents. Additionally, such transactions may require approval or notification from regulatory authorities.

The advantage of GP-led secondary transactions is that they offer more flexibility for fund managers to adjust the investment portfolio structure based on market conditions and the situations of portfolio companies. At the same time, these transactions provide LPs an opportunity to obtain liquidity ahead of schedule and open the door for new investors to participate in mature fund investment portfolios.

4.3.3 Direct Secondary Transactions

Nowadays, direct secondary transactions are primarily facilitated through online trading platforms that exhibit similar structural designs.

Taking SecondMarket[2] as an illustrative example, it provides a liquidity solution for private company equity that encompasses several key elements [15]. From the perspective of both buyers and sellers, the company retains full control over which qualified investors or institutions are permitted to engage in the purchase or sale of shares. For buyers, the company may restrict purchases to existing shareholders, select investors independently, or leverage SecondMarket's extensive network to attract new value-added investors. For sellers, options include former or current employees, among others. Moreover, the company dictates the allowable percentage of shares and the total volume of shares these parties can trade. Additionally, the company sets specific trading times to manage share liquidity effectively and meets the needs of all stakeholders, thereby enhancing communication and transparency. In terms of pricing, companies on SecondMarket choose from various mechanisms like negotiated sales, fixed prices, or auctions, ensuring fair market practices. Furthermore, to prevent information

[2] SecondMarket was acquired by NASDAQ in October 2015

asymmetry, mandatory financial disclosures are required from all parties involved, supported by SecondMarket's stringent disclosure standards.

In summary, such online trading platforms offer high levels of efficiency, transparency, and confidentiality in managing direct secondary transactions of private equity, with platforms like SecondMarket also serving as a broker to facilitate these transactions under regulatory compliance.

4.4 Key Driving Factors

The rapid development of the U.S. private equity secondary market is primarily attributed to a robust market infrastructure, characterized by a dynamic regulatory environment, professional intermediary service institutions and burgeoning online trading platforms.

4.4.1 Dynamic Regulatory Environment

In terms of regulations, the U.S. private equity secondary market heavily emphasizes efficiency and marketization. Throughout the development of the private equity secondary market, U.S. regulatory bodies have shown a pattern of allowing the market to lead, followed by responsive policymaking.

For example, to better protect investor interests and improve transparency in private equity fund share transaction, on February 9, 2022, the SEC proposed a new set of rules [3, 4] under the Investment Advisers Act of 1940. The aim is to further regulate and guide the private equity investment industry, including regulatory measures for GP-led private equity secondary transactions. The proposed rules require: (a) private fund managers to disclose fund expenses and performance to investors quarterly; (b) underlying assets (investee companies) managed by private fund managers to undergo at least annual audits; (c) fund managers to avoid potential conflicts of interest that contradict public interest and investor protection principles; (d) fund managers not to provide preferential terms (such as fee waivers) to a small group of investors at the expense of other investors. At the same time, regarding GP-led private equity secondary

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[3] Proposed Rule (IA-5955): SEC Issued Version , Fact Sheet: Private Fund Proposed Reforms
[4] SEC Proposes to Enhance Private Fund Investor Protection, https://www.sec.gov/news/press-release/2022-19

transactions, the proposed rules specify that fund managers must distribute a fairness opinion issued by an independent third-party entity to all original fund investors before the transaction closes, along with the business dealings between the fund (including its affiliates) and the third-party entity in the past two years to ensure the independence of the entity to investors.

All in all, the U.S. private equity secondary market demonstrates its commitment to fostering a transparent and investor-friendly regulatory environment to continue its dynamic growth and evolution.

4.4.2 Professional Intermediary Institutions

In the U.S. private equity fund share secondary market, intermediary institutions play a crucial role. These institutions, including investment banks, law firms, and accounting firms, provide a wide range of critical services, enhancing the ability to execute complex transactions and greatly promoting market efficiency and transparency. Among them, investment banks and advisors serve as key third-party service providers for fund share transactions in the U.S. private equity secondary market, assuming important roles such as connecting buyers and sellers, assisting in pricing, negotiating terms, and executing deals. Their presence not only provides necessary support for institutions seeking liquidity through the secondary market but also helps address resource constraints and unfamiliarity with market mechanisms that many institutions face when establishing their own fund share transfer processes.

In the U.S. private equity secondary market, well-known boutique advisory firms such as Eaton Partners, Campbell Lutyens, Greenhill, Evercore, and Park Hill Group occupy important positions in the secondary fund share trading market. Their rich experience and professionalism in specific niche areas ensure the efficient operation of the market.

In summary, the large number and high professionalism of intermediary service institutions play an indispensable role in the development of the U.S. private equity fund share secondary market.

4.4.3 Burgeoning Online Trading Platforms

For fund share transactions, as previously discussed, they primarily depend on the services of intermediary institutions due to the highly diversified assets and varying requirements from General Partners (GPs) and Limited Partners (LPs). This diversity often results in numerous negotiation terms, making standardized online trading processes unsuitable for LP-led and GP-led secondary transactions. In contrast, direct secondary transactions are more amenable to such standardized processes.

With the continuous advancement of technology, particularly the development of the internet and financial technology, the US private equity direct secondary market has entered a new stage characterized by the emergence of modernized online trading platforms. These platforms not only enhance the transparency of the direct secondary market, allowing investors to intuitively understand market dynamics and investment opportunities, but also increase accessibility to the direct secondary market, enabling more investors to participate in direct secondary investments. By providing real-time market data, analytical tools, and online trading functionalities, these platforms offer investors a convenient, fast, and low-cost investment environment.

Since 2008, a large number of online trading service platforms aimed at improving liquidity, transparency, and efficiency in the direct secondary market have emerged, including iCapital, eFront, NASDAQ Private Market, Carta (CartaX), Equityzen, Forge, and others. These trading platforms play various roles and serve different purposes in private equity direct secondary transactions.

To summarize, the development of the US private equity secondary market is the result of the combined effects of a dynamic regulatory environment, professional services from intermediary institutions, and advancements in modern financial technology. These factors collectively drive the efficient operation and rapid growth of the US private equity secondary market, and continuously attract more capital and participants.

5. China's Private Equity Secondary Market

5.1 Development History

The evolution of China's private equity secondary market is primarily based on the findings from *Analysis of Domestic Secondary Fund Market in Different Angles* [18] (Fudan Development Institute, 2023).

The development of China's private equity secondary market dates back to 2008, marked by the interest of foreign secondary funds such as LGT Capital and TR Capital. Post 2013, the rising need for liquidity led domestic funds of funds to adopt a "P+S+D" investment strategy (Primary[5], Secondary, and Direct investments), with secondary transactions playing a key role in asset allocation. By 2017, the backlog in exits of Chinese private equity funds highlighted the importance of secondary market transactions. Concurrently, the vibrancy of European and American secondary markets caught the attention of Chinese fund investors, prompting an increase in the adoption of secondary strategies and the establishment of domestic professional secondary funds. However, these funds are still nascent, managing less than a tenth of the volumes seen overseas.

To bolster the secondary market, both national and local Chinese governments have introduced incentives, with professional trading venues commencing operations. Cities like Beijing, Shanghai, and Guangzhou have initiated policies to facilitate equity fund share transfers through negotiation or auction at trading centers. The China Securities Regulatory Commission (CSRC) is also looking to expand these initiatives. Additionally, the increasing scope for Renminbi fund transfers and foreign participation through the Qualified Foreign Limited Partner (QFLP) pilot scheme is propelling the market forward. As of September 2023, 21 regions in China have launched QFLP initiatives, accelerating the integration of foreign institutions into China's secondary market.

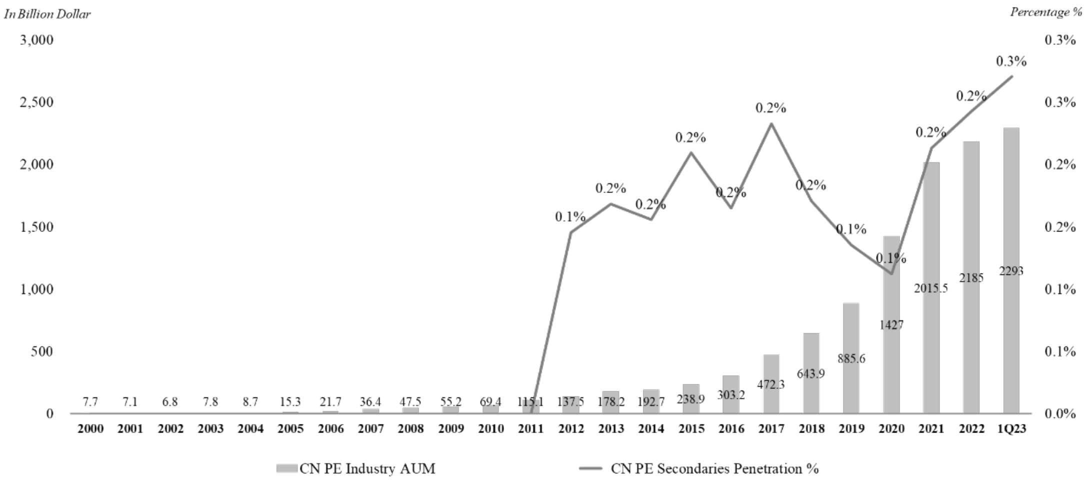
[5] The primary strategy refers to the investments made into new funds managed by general partners (GPs) that are raising capital for new opportunities. It is characterized by investing in the initial funding rounds of these entities, thereby providing them with the primary capital. This strategy is often contrasted with secondary strategies, which involve buying and selling existing fund shares in the secondary market.

In conclusion, although China's private equity secondary market started around 2010 and was initially disorganized, it is rapidly catching up to the maturity seen in Western markets circa the early 2000s. With the introduction of "*New Asset Management Regulations* [6]" and a large number of funds entering the exit period, China's market is poised for significant growth and is expected to reach the development level of international markets by the 2020s within the next decade.

5.2 Overview of Current China’s Private Equity Secondary Market

According to Preqin, as of March 2023, the asset under management of China's private equity market has exceeded USD 2.2 trillion. However, the penetration rate [7] of its secondary market remains below 0.5%. This indicates that the development of China's private equity secondary market is still in its early stages, with a low contribution to the exit of private equity funds. CVsource data shows that over 70% of private equity investments in China still rely on IPOs to exit.

Figure 7 China's Private Equity Asset Under Management and Secondary Market Penetration Rate



Source: Preqin

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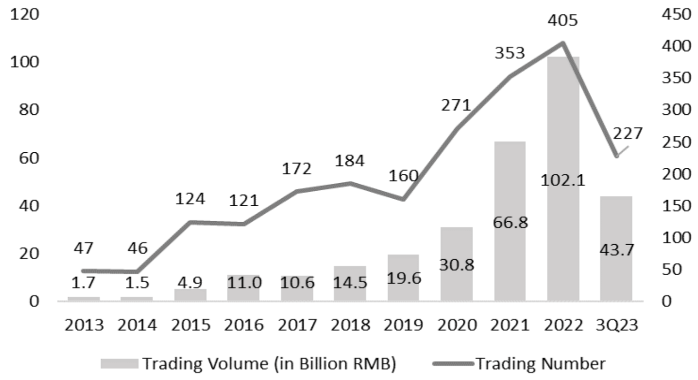
[6] On April 28, 2018, China issued the "Guidelines on Regulating the Asset Management Business of Financial Institutions." This regulatory framework has significantly impacted the private equity market by enforcing stricter supervision and rules. The regulations require clear identification of both investors and investments, prevent short-term mismatches in fund durations by setting minimum terms, and disallow certain complex financial practices like rolling issuance and fund pooling. These measures have stopped banks and other financial institutions from using previously common tactics for investing in private equity funds.

[7] Private equity secondary market penetration rate = Asset under management of the private equity secondary market / Asset under management of the overall private equity market

According to data from Zerone, the trading volume and number of transactions in China's private equity secondary market began to rise significantly from 2016, experiencing explosive growth from 2020 to 2022. The number of transactions increased from 271 to 405, and the cumulative transaction amount known to be achieved exceeded RMB 100 billion for the first time, reaching RMB 102.1 billion. However, by the third quarter of 2023, the number of transactions in China's private equity secondary market had dropped to 227, and the transaction volume plummeted to RMB 43.7 billion.

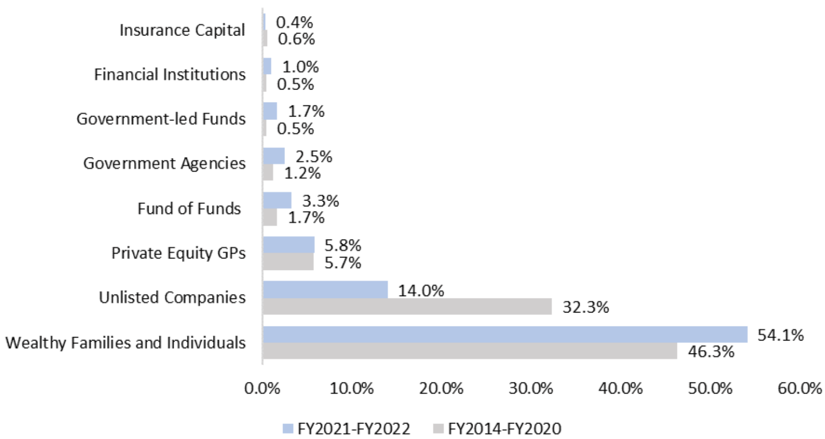
Figure 8 China's Secondary PE Market Transaction Volume and Number



Source: Zerone, FOFWEEKLY

As for buyers, wealthy families and individuals remain the mainstream buyers in China's private equity secondary market. In addition, the PE secondary investment participation of financial institutions, government-guided funds/agencies, fund of funds, and private equity fund managers has all increased to varying degrees.

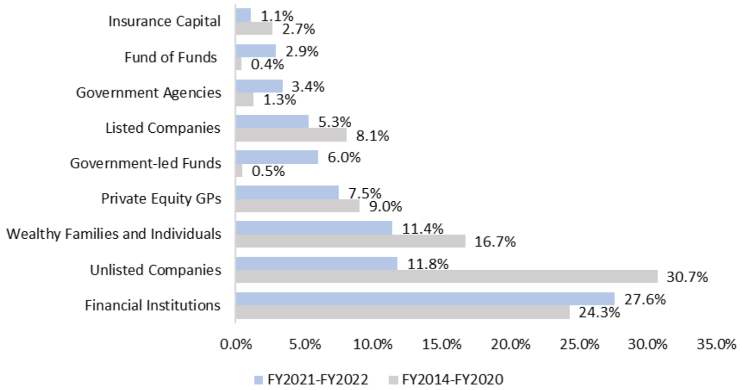
Figure 9 Evolution of Buyer Structure in China's Private Equity Secondary Market



Source: Zero2IPO Research

From the perspective of sellers, fund of funds' proportion of secondary transaction volumes has increased from 0.4% to 2.9%. With a large number of government-led funds entering exit period, the proportion of government-led funds participating in seller transactions increased to 6.0% in FY2021-FY2022. Due to the introduction of the "New Asset Management Regulations" (*Guidelines on Regulating the Asset Management Business of Financial Institutions*, April 28, 2018), the proportion of financial institution seller transactions has increased, reaching 27.6% in FY2021-FY2022 and ranking first.

Figure 10 Evolution of Seller Structure in China's Private Equity Secondary Market



Source: Zero2IPO Research

Through the lens of intermediary services, according to a report by Zero2IPO Research, only 23% of transactions in the private equity secondary market involve third-party platforms or intermediaries. For example, among the secondary market transactions completed in China in 2022, only 6% originated from financial advisors. The credibility, professionalism, and project pools of third-party intermediaries in the China's private equity secondary market may not meet the needs of investment institutions.

Currently, secondary transactions in China's private equity market were mainly conducted offline through "point-to-point" transactions. The market ecosystem was not well-developed, and the actual transaction frequency was exaggerated, leading to suspicions of market speculation. There were some distortions in the market statistics, with a considerable proportion of related-party transactions, LP substitutions, and underwater transfers of state-owned fund shares in secondary market transactions.

Although these transactions were legal and compliant, they inflated the transaction volume, especially the large amount of state-owned funds, leading to inflated transaction data and making the market appear hotter than it actually was.

Against this backdrop, after experiencing continuous growth for several years, China's private equity secondary market saw a significant decline in activity in 2023, with both transaction volume and number shrinking for the first time. The main reason was the mismatch between supply and demand expectations. A large number of buyers entered the secondary market, raising sellers' expectations, but market fluctuations made buyers more cautious about prices, leading to a widening bid-ask spread and a decrease in transaction volume.

Additionally, some "S+P" (Secondary + Primary-investing in new fund) strategies implemented by fund managers (GPs) also had a certain impact on transactions. For secondary funds that only engage in a single secondary strategy, this bundled secondary transactions is almost tantamount to shutting them out, because they do not have a mechanism for new investments. With the tightening of China's domestic IPO policy, funds under exit pressure need to find alternative exit routes outside of IPOs, which may bring more potential trading opportunities to China's private equity secondary market in the short term.

5.3 Transaction Mechanisms

The transaction mechanism of China’s private equity secondary market is primarily based on the findings from *Private Equity Secondary Trading Platform Design Based on Regional Equity Exchange Market* [19] (Lv Zhouting, 2018), and *Digital Transformation of Private Equity in China* [20] (Xu Ruihui and Zhao Dawei, 2023).

At present, the trading structure in China's private equity fund share secondary market is relatively simple, mainly limited to “one-on-one” LP-led private equity fund share transfer transactions. In other words, when an investor (LP) in a fund intends to fully or partially exit from a single target fund, they only transfer their ownership shares to a single transferee, subject to the approval of the management team of the target fund. Under this trading model, transaction sizes are typically small, involving fewer parties, and transaction structures and documents are relatively simple.

Furthermore, for director secondary transactions, online trading service platforms in China's private equity secondary market are still in a relatively early stage of development. Compared to mature and feature-rich secondary market trading platforms in the United States, there is currently no equivalent platform in China.

However, this does not mean that the market has made no progress. In fact, China's private equity secondary market has established several official trading platforms, which have to some extent alleviated issues such as low market standardization, lack of transparency, and information asymmetry. For example, the Shenzhen Stock Exchange offers share transfer services for private equity funds that have been registered according to the requirements of the China Securities Regulatory Commission (CSRC). Although only basic information can be disclosed when the private equity funds are listed, this measure undoubtedly increases market transparency. Additionally, the Beijing Financial Assets Exchange and the Shanghai Equity Custody and Trading Center also provide share transfer services for private equity funds. As channels for information disclosure, they provide market participants with more information and trading opportunities.

5.4 Development Opportunities and Challenges Coexist

As one of the most dynamic and promising secondary equity investment markets globally, the Chinese private equity secondary market has undergone significant development in recent years. The “backlog” of private equity in China continues to increase, providing prospective buyers entering the Chinese private equity secondary market with promising transaction opportunities. Although the prospects for the Chinese private equity secondary market are promising, there are still four major challenges to overcome [21] [22].

5.4.1 Difficulty in Matching Buyers and Sellers

Firstly, looking at the characteristics of private equity secondary transactions, the key and challenging aspect lies in the interaction between the transferor and the transferee. Due to the presence of a large number of high-net-worth individuals among secondary market investors in China, there is a lack of smooth communication channels between these investors. Additionally, the non-public nature of private equity funds, combined with significant restrictions imposed by legal regulations and fund documents on the transfer of fund shares, further complicates the effective matching of potential transferors and transferees. Moreover, investors have limited ability to identify suitable transferors or transferees on their own. In such a scenario, the development of the Chinese private equity secondary market critically requires a specialized trading platform to provide those accredited investors with convenient channels for accessing information on transaction counterparts.

5.4.2 Lack of Professional Talent and Intermediary Institutions

The shortage of professional talent and intermediary institutions is also a major obstacle to the development of China's private equity secondary market.

Currently, intermediary institutions in the Chinese capital market mainly serve the financing needs of enterprises, and there are very few institutions providing intermediary services for secondary private equity transactions. Experience in secondary market transactions is still lacking. In addition to investment banking services, experience in secondary transactions is urgently needed among lawyers, accountants, appraisal institutions, and other professionals.

Furthermore, uncovering investment opportunities in the private equity secondary market requires a large amount of market resources and rich industry experience, placing high demands on practitioners. Currently, most institutions in China that are involved in secondary transactions are large and reputable fund of funds in the market, Limited domestic fund management teams possess the capability to engage in the secondary market transactions.

In conclusion, due to the complexity of deal sourcing, transaction structures, pricing methods, and other aspects of private equity secondary transactions, high demands are placed not only on the intermediary institutions, but also on the relevant practitioners in the secondary market. The shortage of professional talent may hinder the development of China's private equity secondary market.

5.4.3 Low Market Activity

The buyers and sellers in China's private equity secondary market have not yet matured, leading to relatively small transaction volumes and numbers. The formation of an active market requires a sufficient number of trading parties. For a long time, the majority of investors in domestic private equity funds in China have been corporate investors and high-net-worth individuals, whose investments are primarily driven by the need for diversified asset allocation and are limited in scale. This fragmentation is reflected in the secondary market transactions derived from the primary market. In contrast, investors in the US private equity secondary market are mostly large institutional investors, including large financial institutions, public pension funds, university endowments, and other professional investment institutions, whose demand for and ability to actively manage investment portfolios through secondary transactions far exceed those of small and medium-sized retail investors. This dynamic creates more investment opportunities and attracts more buyers in the private equity secondary market.

In addition, the difficult exit of a large number of state-owned fund shares in the Chinese private equity market is a long-standing problem. The challenges and uncertainties in pricing and internal approval processes of state-owned fund shares have led to low willingness from both the state-owned entities themselves and their counterparties to engage in the secondary transactions.

The weak willingness of domestic institutions to participate in secondary transactions is both a cause and a consequence of the slow development of China’s private equity secondary market.

5.4.4 Information Asymmetry and Unreasonable Pricing

In the private equity secondary market, due to the private nature of the traded assets, sellers typically have a much better understanding of the funds they hold compared to buyers. Since the secondary market is buyer-dominated, buyers tend to be very strong and inclined to offer lower prices, while sellers also hope to make higher profits and may therefore offer assets of lower quality. Over time, this has led to a situation in the Chinese private equity secondary market where a large number of low-quality assets are prevalent among sellers.

Achieving price consensus in China's private equity secondary market is challenging due to two main factors [23]. Firstly, the market's most common transactions—fund share transfers—involve shares comprised of assets from diverse projects with varying quality. This diversity necessitates that buyers are adept at assessing and valuing underlying projects, further complicated by the lack of standardized pricing mechanisms and differing asset evaluations among participants. Secondly, the market's growing popularity has attracted many speculative buyers, termed "window shoppers," who increase price inquiries without intending to transact, thus widening the bid-ask spread and inflating seller expectations.

In this situation, to address the problems of information asymmetry and unreasonable pricing, one approach is to establish an effective trading platform for private equity secondary markets. However, for Chinese private equity secondary market trading platforms to make substantive progress in the short term, besides relying on the overall activity level of the secondary market, there are still many legal, regulatory, and compliance issues that need to be clarified and resolved.

6. Conclusions and Recommendations

6.1 Conclusions

The trajectory of the U.S. private equity secondary market underscores the critical role of secondary transactions in mature capital markets, highlighting benefits like enhanced capital liquidity, improved asset allocation, and increased financial returns. As the Chinese economy progresses and its private equity market develops, Chinese private equity funds are encountering an exit phase, with bank-affiliated LPs, listed company LPs, and local government-guided fund LPs under significant exit pressure. This situation marks a pivotal moment for the burgeoning Chinese secondary market, driven by an unprecedented demand for exits.

Comparatively, developed private equity markets highlight a comprehensive market infrastructure, including sophisticated policy regulations and robust intermediary networks, which collectively foster a conducive environment for secondary market transactions. These systems facilitate efficient pricing, seamless information exchange, and streamlined transaction processes, reducing costs and invigorating market dynamics. In contrast, China's private equity market is distinguished by its unique regulatory landscape and the prevalent involvement of state-owned funds, indicating a distinct developmental path for its secondary market. Currently, this market is at an embryonic stage, grappling with policy and infrastructural challenges that dampen market vibrancy and limit exit avenues, especially for state-affiliated funds.

This study contends that, given China's current regulatory landscape, a strategic emphasis on regulating fund share transfers and developing trading mechanisms is critical to addressing the liquidity challenges within the private equity market. Moreover, nurturing intermediary institutions that specialize in the private equity secondary market is imperative. Concurrently, standardizing and streamlining transaction procedures and disclosure practices are essential steps to enhance transaction efficiency, mitigate information asymmetry, and prevent skewed pricing in secondary transactions. These efforts are key to fostering a robust and efficient environment for the private equity secondary market.

6.2 Recommendations

The U.S. private equity secondary market has undergone decades of development, experiencing several economic cycles, and both market participants and government regulatory systems have matured. Moreover, the emergence of private equity secondary market trading platforms in the United States has provided valuable insights and lessons for the development of China's private equity secondary market.

Building on this foundation, this study examines the developmental history and key drivers behind the United States' private equity secondary market to propose three recommendations: enhancing regulatory frameworks, strengthening intermediary institutions, and developing trading platforms.

6.2.1 Improving the Regulatory Framework

As discussed in 4.4.1, the U.S. has seen heightened regulatory attention on private equity market information disclosure in recent years, serving as a cautionary note for China's regulatory approach. The private equity secondary market often grapples with significant information asymmetry issues, ranging from static imbalances between limited partners (LPs) and general partners (GPs) concerning fund operation and profit distribution, to dynamic asymmetries during transactions that favor asset transferors. Addressing these challenges goes beyond market efforts alone and necessitates regulatory intervention to establish comprehensive information disclosure laws and market-recognized standards.

6.2.2 Cultivating a Professional Intermediary and Talent System

The private equity investment sector thrives on knowledge, making a strategic approach to talent development critical for the growth of the secondary market. A robust framework of high-quality professional intermediaries is fundamental to this market's health, necessitating regulation of their conduct, establishment of industry standards, market activation, and transaction enhancement. Additionally, integrating more international private equity consulting firms into the domestic market could leverage their extensive expertise in institutional development, transactional frameworks, valuation methodologies, and investor protection, steering local intermediaries towards globalization and expansion.

Moreover, promoting educational programs in domestic universities and business schools that blend theoretical knowledge with practical insights into the private equity secondary market is essential. There should be substantial support for training institutions offering relevant professional development and workshops. Local entities are encouraged to collaborate with international private equity funds for employee training, aiming to elevate industry professionalism. Organizing offline workshops, seminars, and industry events focused on due diligence, pricing strategies, and transaction execution can further educate the market, lower transaction costs, and ease transactional challenges, paving the way for an efficient and transparent market ecosystem.

6.2.3 Establishing Online Trading Platforms

Establishing professional private equity secondary market trading platforms as trusted third parties can serve multiple purposes. On one hand, they can rely on the construction of big data platforms to create data centres for non-listed enterprises and private equity funds, gathering market public data and various information from enterprises to establish a reliable basis for company and private equity fund valuation systems, laying the foundation for the formulation of effective equity pricing standards. On the other hand, standardized information disclosure principles can be established to guide private equity funds and non-listed companies to make appropriate disclosures to enhance the transparency of underlying assets. Additionally, a licensed investor system can be established to allow for confidential disclosure within a certain scope, thereby alleviating private equity secondary market investors' concerns about information asymmetry and bolstering investor confidence.

Furthermore, online trading platforms have the potential to craft efficient trading mechanisms and networks, deploy dynamic bidding systems, and enhance the secondary market's price discovery process, offering varied options to diverse market participants. By catering to the liquidity management and asset allocation needs of these participants, such platforms can deliver added value, thereby drawing in more qualified investors to the private equity secondary market and amplifying its network effect.

7. Outlook of China's Private Equity Secondary Market

Despite its nascent stage, China's private equity secondary market is poised for significant growth, paralleling the rapid expansion of the primary private equity sector. Since the early 21st century, China's private equity funds have evolved over a decade, with the legal and regulatory framework steadily improving and the regulatory system becoming more comprehensive. As of March 2023, the assets under management in China's private equity funds have surpassed $2 trillion USD, showcasing a clear upward trend in recent years. Given that private equity funds typically operate over 5 to 10 years, with an investment phase of 3 to 6 years, the influx of funds in recent years is now transitioning into the mid-to-late investment phase, indicating a forthcoming wave of activity in the secondary market. Consequently, the robust growth of China's primary private equity market is creating a solid foundation for the secondary market's development.

In the early stages of China's private equity fund development, investors were mainly high-net-worth individuals and ordinary corporate investors. However, today, more and more professional institutional investors have entered the market. While not entirely similar to mature investment institutions such as public pension funds and university endowments commonly seen abroad, China also has various types of institutional investors, such as the Social Security Fund Council, insurance funds, securities companies, government-guided funds, and other large fund of funds. The appearance of numerous professional institutional investors has gradually changed the investor structure of China's primary private equity market, making the market more mature and rational. The optimization of the investor structure in the primary private equity market will also promote the development of the secondary market accordingly.

With the flourishing development of China's primary private equity market, a large number of primary market transactions have cultivated a group of outstanding talents capable of identifying and judging investment opportunities and managing investment risks. Many large fund of funds or asset management institutions have begun to lay out the private equity secondary market, hoping to seize the market opportunity with their rich market and talent resources. At the same time, various intermediary institutions have accumulated rich experience in private equity fund raising, management, investment, and exit through long-term practice in primary market transactions. The capabilities of professional personnel in designing complex transaction structures, drafting complex transaction documents, and handling other transaction-related issues are crucial for private equity secondary transactions.

In the future, as market infrastructure continues to improve and policy initiatives guide secondary funds into the private equity secondary market, the influx of both buyers and sellers is set to accelerate the ecosystem's maturation. This uptick in transactional activity will not only facilitate more accurate price adjustments but also create additional opportunities for third-party service providers. Amidst growing competition, these providers will likely enhance their offerings, contributing positively to the private equity secondary market. This improvement in services, coupled with increased market activity, will foster a beneficial cycle, propelling the development of China's private equity secondary market into a new phase of growth.

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APPENDICES

Memorandum of Private Equity Secondary Transaction Discussion

Date: February 16th, 2024

Time: 3:00 PM – 4:00 PM

Location: MIT Campus

Attendees: Mr. Tze Wei Lim (Associate, HarbourVest Partners LLC, Boston, Private Equity Secondary Investment), Weizong HAN

1. Overview of Secondary Transactions

Mr. Tze Wei Lim initiated the discussion by emphasizing the complexity of the end-to-end process in secondary transactions. He highlighted the significance of understanding the roles of various parties involved, including buyers, sellers, and third-party intermediaries.

2. LP-Led Transactions

The conversation shifted towards LP-led transactions, with Mr. Tze Wei Lim explaining that these occur when an LP decides to sell its stake in a fund or portfolio of funds. The process involves approaching an intermediary, typically an investment banker, to facilitate the transaction. This approach is termed "LP-led" due to the LP initiating the sale process.

3. Role of Intermediaries

Mr. Tze Wei Lim detailed the intermediary's role, especially investment bankers, in managing the transaction process. This includes preparing the sale portfolio, identifying potential buyers, handling legal documentation, and ensuring regulatory compliance. The importance of intermediaries in managing negotiations and price adjustments based on capital calls and distributions was also discussed.

Investment bankers play an irreplaceable role in secondary transactions, often charging a modest fee ranging from 0.1% to 0.5% of the transaction value. Despite this seemingly low percentage, the expertise and market access provided by bankers typically result in a significantly higher selling price for the seller. Even a modest increase of 1% in the selling price, facilitated by the banker's involvement, is sufficient to offset the banking fees, underscoring the value and financial advantage of employing an investment banker in these transactions.

4. Market Dynamics and Pricing

The discussion addressed how market conditions, such as volatility in public markets, can influence private equity valuations and necessitate portfolio rebalancing for LPs. Again, Mr. Tze Wei Lim elaborated on pricing considerations in secondary transactions, including adjustments for capital calls and distributions that occur after the reference date of the transaction.

5. Digital Platforms

The potential role of digital platforms in streamlining secondary transactions was debated. While acknowledging the emergence of platforms aimed at facilitating these processes, Mr. Tze Wei Lim noted the continued importance of personalized service provided by investment bankers and legal advisors, given the complex nature of fund share secondary transactions.

6. Overview of Valuation Approach of Fund Interests

Mr. Tze Wei Lim outlined the valuation methodology for fund interests, emphasizing the distinction between public and private components within a fund. For public investments, a 10% discount to public market prices is applied. For private investments, a detailed modelling of the top companies (representing 75% of the fund's net asset value) is conducted.

On top of that, Mr. Tze Wei Lim delved into the detailed valuation process, discussing the necessity of adjusting the net asset value for any distributions and costs that occur post-reference date. This adjustment is crucial to avoid overestimating the growth potential of the investments. The discussion also covered the valuation of unfunded commitments and the strategic application of multiples based on historical performance and expectations regarding new investments.

In addition, Mr. Tze Wei Lim underscored the use of comparable companies to inform valuation assumptions, particularly for private investments, and stressed the importance of conservative assumptions in valuation to reflect market realities accurately. Also, different secondary investors apply different valuation methodology. The insights shared during the meeting highlighted the intricate process of valuation in the secondary market and underscored the expertise required to navigate this challenging yet vital aspect of private equity investing.

--End--

ACKNOWLEDGEMENT

First and foremost, my deepest gratitude goes to my thesis advisor, Professor Gregory. From the selection of the topic to navigating the mid-term report, drafting, and revising my thesis, Professor Gregory has provided me with invaluable advice and perspectives. The scholarly depth and professional prowess that Professor Gregory embodies are beacons to which I aspire, even though I view them as summits beyond my reach.

My journey has been a long one, beginning in a small village in southern China, moving to Beijing, and ultimately arriving in the United States. I have faced hardships, but it is my relentless optimism and strength, bolstered by the unwavering support of my parents, friends, teachers, and classmates, that have illuminated my path with surprises and motivation.

Furthermore, I am very grateful to Mr. Tze Wei Lim for his insights on the U.S. private equity secondary market, which have been incredibly beneficial for the writing of my thesis.

Additionally, I am more than fortunate to have crossed paths with Mr. Du Zhou in Cambridge. I will always cherish and remember our very first meeting, strolling and chatting by the Charles River on November 17, 2023. It was through him that I was blessed to meet five other amazing and caring friends: Mr. Zhang Wenbo, Mr. Zeng Runnan, Mr. Zhu Shiyou, Mr. Wang Xiaoduo, and Mr. Zhu Yonglin. The joy and excitement they have brought into my life are immeasurable. Here's to the future adventures and laughter that await us.

Especially, heartfelt thanks to my parents, Mr. Han Guoyuan and Ms. Han Longzhu; my sister, Ms. Han Yushan; and the kindest Mr. Wang Fuyang, for their endless help and support on my journey to MIT.

Gratitude fills my heart, yet words fall short.

February 2024

Cambridge, Hayden Library at MIT

Weizong HAN