

Secondaries in Private Equity

February 2019



Allocate

General Meeting 2019

Powering the next stage
of private equity

The Grove
19-21 June 2019
#Allocate2019

PUT THE DATE IN YOUR DIARY

events.unquote.com/allocate

 **Unquote**
An Acuris company

Contents

From a niche corner of private equity, the secondaries market has rapidly evolved into a key part of the industry. Specialists are raising ever-increasing amounts of capital as LPs have come to appreciate the benefits of investing into this strategy, and managers and the advisory community are becoming increasingly creative in structuring deals.

Classic LP-led deals still account for the majority of the secondaries market, though the percentage has dropped recently, making way for more GP-led transactions that no longer carry the stigma of underperformance. Investors are keen to get access to good quality managers, so GPs wishing to retain control of their ageing portfolios, while providing liquidity to their LPs, have met with a captive audience.

There is only so far a market can move vertically before investors start to get itchy for a slightly new strategy. Where there is a buoyant primary market, a secondary market typically follows and there seems to be a nascent one emerging in private debt.

In this report, *Unquote* investigates the key themes of this evolving market, and what the future is likely to hold for the secondaries space.

Editorial



Denise Ko Genovese

Associate editor

T: +44 (0) 20 3741 1192

E: denise.ko.genovese@acuris.com



Gareth Morgan

Research manager

T: +44 (0) 20 3741 1281

E: gareth.morgan@acuris.com

02 Secondaries fundraising takes off

Dedicated secondaries managers have been making hay while the sun shines in the buoyant fundraising climate of recent years. Gareth Morgan investigates the drivers of this boom, and what the future may look like for this corner of the private equity market

06 Continued evolution: Private debt and venture

There is only so far a market can move vertically, innovating and tweaking, before investors start to get itchy for a slightly new strategy. Denise Ko Genovese investigates the contrasting appetites for private debt and venture secondaries

08 The evolution of LP-led secondaries

LP-led deals dominate the market and given the high prices, those that were sitting on the sidelines are now getting involved. Denise Ko Genovese reports

10 The evolution of GP-led secondaries

From stapled tender offers to single-asset restructurings, GP-led secondaries transactions have been grabbing headlines over recent years. Gareth Morgan investigates how increasingly creative structures are solving a variety of problems

www.unquote.com

A wealth of further information is available through our website. This includes breaking news and analysis from each European market, features, commentary, blogs and video covering fund launches, changes in strategy and people moves

Secondaries fundraising takes off



Gareth Morgan
Research manager

Fundraising activity across private markets has grown in recent years for a variety of reasons, and the secondaries space has been a particular success story.

2016 broke all-time records, with €33.65bn raised worldwide by the 16 funds holding a final close that year, including the current record holder for largest secondaries fund, Ardian Secondaries Fund VII, which raised \$10.8bn dedicated to the strategy, and surpassed the \$10.1bn Lexington Capital Partners VIII, which closed the previous year. Momentum continued into 2017, with €31.27bn secured at final close of 19 funds. Following two years of exceptional activity, 2018 saw a decline in terms of value raised, mainly because large players were deploying funds raised in the two years previously.

The coming 12 months look set to challenge 2016 for the record for total value raised in a calendar year, with *Unquote Data* listing 11 secondaries funds currently in the market likely to close this year, targeting a cumulative €44.99bn (see *table, page 4*).

Driving the market

“Ten years ago, the largest secondaries funds were \$4–6bn, whereas today they are \$12–14bn,” says Thomas Liaudet, partner at Campbell Lutyens.

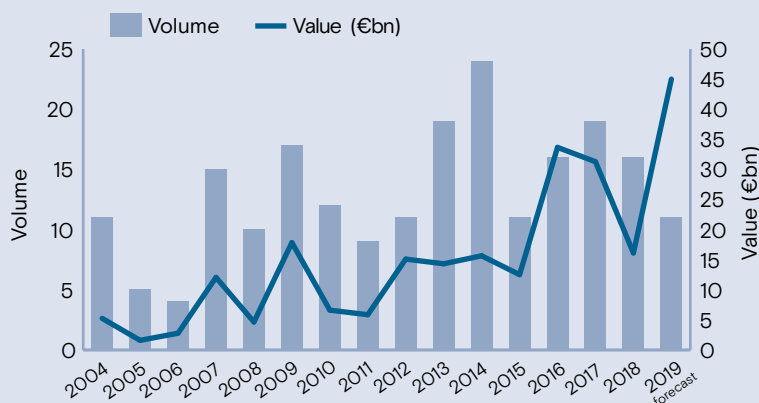
Coller Capital is a good example of the growth of the secondaries space, raising \$87m for its first fund in 1996, and almost tripling this with its second offering in 1998, raising \$240m. This growth in fund size continued, with \$712m raised in 2000, \$4.5bn in 2009, \$5.5bn in 2012, and \$7.15bn for fund VII, which held a final close in 2016. The GP is currently in the market targeting \$9bn for its eighth flagship fund.

There are some specific traits of the secondaries market that have enabled it to grow at a pace outstripping the buyout market, and from a niche strategy, secondaries funds have now become a key part of the private equity portfolios of many LPs, not least because of the returns profile compared with buyout investments.

“The nature of secondaries transactions mean that distributions tend to be earlier and IRRs tend to be higher than typical primary private equity fund investments,” says Chi Cheung, partner at Glendower Capital

The IRR component of returns, which

Volume and value of secondaries fundraising



Source: *Unquote Data*

Dedicated secondaries managers have been making hay while the sun shines in the buoyant fundraising climate of recent years. Gareth Morgan investigates the drivers of this boom, and what the future may look like for this corner of the private equity market

incorporates the time value of money, is relatively high for secondaries given the shorter investment horizons, meaning LPs can recycle capital frequently.

“Secondaries are favourably benchmarked by LPs for IRR,” says Campbell’s Liaudet. “This is leading to many allocating capital to secondaries as a standalone asset class and segmenting their allocation within this.”

A benefit that secondaries have compared with other private equity strategies for LPs is that, with many actively selling into the market, there is a more mature, deeper understanding of the strategy. “LPs see both sides of the equation; they buy secondaries funds and will also sell assets. They are closer to the market than with buyouts, for example, so feel more comfortable investing,” says Liaudet.

There are additional benefits to LPs that the secondaries space offers as well, especially those that are relatively new to private equity investing. “Secondaries can be very helpful with portfolio construction for LPs setting up a new programme,” says Richard Hope, managing director at Hamilton Lane. “The issue with blind pools is averted, and as LPs become increasingly impatient with things such as the j-curve, they see distributions coming back sooner as a good thing.”

Managing the effects

Thankfully for those managers sitting on capital, the supply of potential deals is also increasing. “Sellers are trusting the market more, meaning

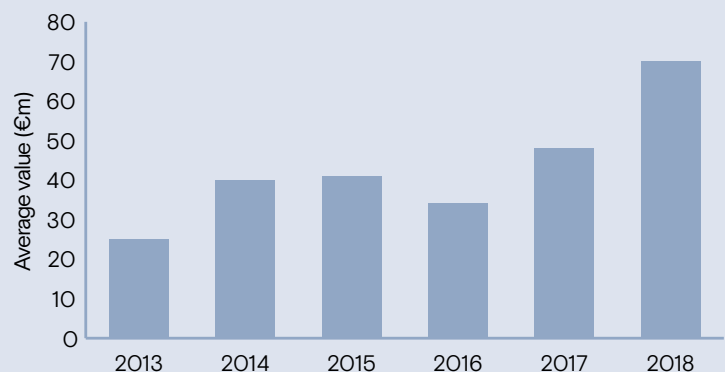
“The nature of secondaries transactions mean that distributions tend to be earlier and IRRs tend to be higher than typical primary PE fund investments.”

Chi Cheung, Glendower Capital

dealflow is increasing,” says Hope. This is demonstrated by the growth of volume in the secondaries market, with 2018 seeing more than \$70bn in transacted volume, according to Campbell Lutyens, up from \$45bn in 2017, and \$34bn in 2016.

The knock-on effect of the fundraising climate is the increase in competition for deals, which, combined with rising public equity markets, has ►

Volume of secondaries transactions



Source: Campbell Lutyens Data

“There is an increasing specialisation of GPs, meaning LPs can pick and choose the DNA of their secondaries exposures”

Richard Hope, Hamilton Lane

led to pricing inflation, and consequently the use of leverage to amplify returns.

“Dry powder is increasing year-on-year on strong fundraising, but the use of leverage also adds to this figure,” says Liaudet. “The market perception of leverage has changed; 8-10 years ago there was one manager using leverage, and LPs were not very comfortable with that. Because their performance over time has been good, however, if a GP is not using leverage, LPs are asking why not.”

This increase in competition is leading to managers exploring ways to stand out from the crowd, and source alpha away from the more sought-after areas of the market. “There is also an increasing specialisation of GPs, meaning LPs can

pick and choose the DNA of their secondaries exposures,” says Hope. Examples of this include a Lexington Capital Partners platform dedicated to acquiring growth capital, small- and mid-market fund interests, the fourth fund of which closed on its \$2.66bn hard-cap in September 2017, and Ardian’s Early Secondary strategy, which targets interests in funds less than 50% deployed.

In the pipeline

Looking at the prospects for 2019, secondaries fundraising seems set to post a record-breaking year in terms of the amount of capital raised. The largest brand-name managers in the asset class are out in the market, each targeting more than their previous funds and each reportedly on track to hit or surpass this target.

With leverage and non-traditional purchasers such as larger pension plans and sovereign wealth funds becoming active buyers in the market adding to the stockpiles of dry powder waiting to be deployed, the secondaries market looks set to continue the rapid growth it has seen in recent times. ■

Selected private equity secondaries funds in the market

FUND NAME	FUND MANAGER	FUND TARGET (€M)
Ardian Secondary Fund VIII (ASF VIII)	Ardian	9,975.56
Lexington Capital Partners IX	Lexington Partners	9,653.52
Coller International Partners VIII	Coller Capital	7,368.47
Strategic Partners Fund VIII	Blackstone Group	6,650.37
Dover Street X	HarbourVest Partners	5,602.58
GS Vintage Fund VI	Goldman Sachs	3,634.48
Pantheon Global Secondary Fund VI	Pantheon Ventures	1,684.57
Glendower Secondary Opportunities Fund IV	Glendower Capital	1,503.31
Adams Street Global Secondary Fund 6	Adams Street Partners	1,132.73
W Capital Partners IV	W Capital Partners	623.47
Aberdeen Standard Secondary Opportunities Fund IV	Aberdeen Asset Management	441.87
Keyhaven Secondaries Fund II	Keyhaven Capital Partners	350

Source: Unquote Data

Largest secondaries funds 2016-18

FUND NAME	FUND MANAGER	FINAL CLOSE YEAR	AMOUNT RAISED AT FINAL CLOSE (€M)
Ardian Secondary Fund VII (ASF VII)	Ardian	2016	12,548.29
Strategic Partners Fund VII	Blackstone Group	2017	7,132.33
Landmark Equity Partners XVI	Landmark Partners	2018	6,598.86
Coller International Partners VII	Coller Capital	2016	6,339.89
GS Vintage Fund VII	Goldman Sachs	2017	6,116.85
AlpInvest Secondaries Fund VI	AlpInvest Partners	2017	6,103.4
Dover Street IX	HarbourVest Partners	2016	4,252.13
Pantheon Global Secondary Fund V	Pantheon Ventures	2016	2,568.05
Partners Group Secondary 2015	Partners Group	2016	2,500
Crown Global Secondaries IV	LGT Capital Partners	2016	2,496.01
Lexington Mid Market IV	Lexington Partners	2017	2,426.25
NB Secondary Opportunities Fund IV	NB Private Equity Partners	2017	2,201.62
Hamilton Lane Secondary Fund IV	Hamilton Lane	2017	1,699.34
Pomona Capital IX	Pomona Capital	2018	1,641.83
Portfolio Advisors Secondary Fund III	Portfolio Advisors	2018	1,350.89
Newbury Equity Partners IV	Newbury Partners	2018	1,314.58
ICG Strategic Secondaries Fund II	Intermediate Capital Group	2017	1,036.96
Committed Advisors Secondary Fund III	Committed Advisors	2017	1,025
StepStone SOF III	Stepstone	2017	846.86
MCP Opportunity Secondary Program IV	Montana Capital Partners	2018	800
Northleaf Secondary Partners II	Northleaf Capital Partners	2018	745.52
GCM Grosvenor SOF II	GCM Grosvenor	2018	642.72
Altamar Global Secondaries IX	Altamar Capital	2018	541
Hollyport Secondary Opportunities VI	Hollyport Capital	2017	465.95
PineBridge Secondary Partners IV	PineBridge Investments	2018	465.03
Auda Secondary Fund IV	HQ Capital	2018	464.52
Five Arrows Secondary Opportunities IV	NM Rothschild	2016	451
Amberbrook VII	Willowridge Partners	2016	445.8
Idinvest Secondary Fund III	IDInvest Partners	2017	442
Industry Ventures Secondary VIII	Industry Ventures	2016	440.32
Capital Dynamics Global Secondaries IV	Capital Dynamics	2016	409.12
Cubera VIII	Cubera Private Equity	2017	405
Standard Life Capital SOF III	SL Capital Partners	2017	376.92

Source: Unquote Data

Continued evolution: Private debt and venture



Denise Ko Genovese
Associate editor

Wherever there is buoyant primary activity, over time, the natural by-product is a secondaries market. Private equity fund stakes clearly command the biggest market in the alternatives space, but there have been dedicated secondaries strategies for real estate, infrastructure and venture for some years. According to Campbell Lutyens, the transacted value of real estate secondaries amounted to \$5.28bn in 2018; infrastructure secondaries \$3.65bn; and venture \$5.67bn, compared with the \$47.4bn in buyout secondaries.

As secondaries become an established part of the market, and demand grows from the LP community for the strategy, it is inevitable that innovators will explore opportunities in other asset classes. Two in particular offer apparent synergies with private equity: private debt and venture capital.

Private debt

“There has been a lot of capital put to work in the private debt space in recent years, so a natural derivative of this activity is a secondary market,” says Gerald Cooper, partner at Campbell Lutyens. “We are beginning to see dedicated secondaries funds for private debt and expect institutional demand to grow for this type of exposure.”

Last year, investment manager Pantheon was identified in unconfirmed press reports as preparing a secondaries fund dedicated to private debt. Currently, no such vehicle exists in the private market though some institutions have invested through bespoke mandates as

part of a more global and diversified strategy.

“Until the financial crisis there were only mezzanine and subordinated debt to talk about in the private debt sphere, as well as funds that were mainly distressed or turnaround. So the only debt secondaries were LPs selling these types of debt positions as part of portfolio re-balancing, in a bid to reduce their exposure to these deals,” says Francesco di Valmarana at Pantheon.

There were very few limited partnership fund structures targeting senior debt until banks started pulling back and in stepped the swathe of mid-market direct lending and private debt funds. The mid-market direct lending and private debt space has now been up and running for more than 10 years so there has been an extended opportunity to get to know the managers and their portfolios.

“Private debt portfolios have started to follow the trend in the private equity secondary market, with investors rebalancing their portfolios and, to date, it is more common to see trading in distressed debt funds,” says Immanuel Rubin, partner at Campbell Lutyens. “So far we have seen mostly event-driven sales what with pension plan selling some interests, for example.”

The thing to consider is that it may be difficult to justify selling at large (or any discounts) when selling senior, first lien or unitranche positions and therefore there is more limited upside from buying notably discounted positions in distressed debt funds. But, although overall returns on such credit funds are lower with typically a holding period that is shorter in private debt,

There is only so far a market can move vertically, innovating and tweaking, before investors start to get itchy for a slightly new strategy. Denise Ko Genovese investigates the contrasting appetites for private debt and venture secondaries

it will be attractive to some, says Lutyens' Rubin.

"As happens when any asset class matures, some investors are likely to seek exposure to private debt through the secondaries market," says Pantheon's di Valmarana. "You cannot do a private debt deal and expect a private equity return. But you can start to get exposure to private debt through secondaries in order to get a private debt return, often at lower risk," he says.

As investors have become more comfortable with the private debt market and direct lending in recent times, a feasible and liquid secondary market could be drawing closer.

Betting on venture?

Despite having a relatively long history, compared with private debt, secondaries in the venture capital space is yet to be established as a standalone strategy with critical mass.

"Investors have not demonstrated that they are willing to make a bet on the venture secondary market the same way they have for other alternative strategies," says Lutyens' Cooper. "The opportunity to provide secondary solutions in the venture space is meaningful, but the market is undercapitalised, which limits the scale and breadth of transactions that can be executed. Early-stage investments typically have limited financial information available and the businesses can be highly technical which are barriers that most traditional investors find difficult to overcome," he says.

Investing in venture via secondaries has specific

"As happens when any asset class matures, some investors are likely to seek exposure to private debt through the secondaries market"

Francesco di Valmarana, Pantheon

challenges: there is generally less certainty around valuations and the timing of exits, so IRRs tend to be more volatile, say Pantheon's di Valmarana. It can take longer to exit the companies, and follow-on capital injections may be needed, depending on the stage an investor is exposed to. Finally, it can be difficult for managers to deploy a meaningful amount of cash.

The issue around deployment is exacerbated by difficulties in finding attractive opportunities in the space, particularly when looking at a portfolio of fund interests. "There has always been a market for venture secondaries, but placing a secondary venture portfolio is harder than placing a private equity one," says Pinal Nicum of asset manager and LP Adams Street Partners. "Finding good quality venture is also harder and there is a bigger performance dispersion, so it is a difficult place to find good value."

With the private equity secondary sphere bursting at the seams with players, asset managers may naturally look to different but related asset classes to diversify and differentiate themselves. While venture secondaries will remain an acquired taste for some time, private debt certainly seems poised for a healthy uptick. ■

LP-led secondaries: the enduring classic



Denise Ko Genovese
Associate editor

The LP-led market, where the limited partner instigates the sale of an underlying stake in a private equity fund, still accounts for the lion's share of the secondaries space. According to Campbell Lutyens' 2019 survey, this portion of the market currently amounts to 61% of all deals.

Once the preserve of only the largest and most sophisticated institutions, the secondaries market is now being utilised by smaller LPs, taking advantage of increasing appetite from secondary buyers to crystallise returns at attractive valuations.

"The LP-led market is primarily being used as a portfolio management tool and has become widely accepted as such," says Gerald Cooper, partner at Campbell Lutyens. "Funds-of-funds now also use the market when looking to sell older vehicles in order to provide liquidity options for their LPs or wind down legacy vehicles," he says.

The majority of trades are stakes in large-cap funds simply because people are more familiar with them and there are more investors so there is naturally more volume, says Kevin Revolte, director at French asset manager Flexstone Partners. But as the market has grown and become more mature, the mid-market space has become increasingly liquid, too.

Record transaction volume in the secondary market has been driven by attractive secondary prices for sellers, which has drawn out LPs that have historically sat on the sidelines, but are now taking advantage of the buoyant market conditions. With return hurdles under sustained downward pressure, the relative value of selling secondaries

to redeploy capital into higher-return opportunities versus holding makes economic sense for LPs in many cases.

In the first half of the 2000s, when secondaries accounted for only \$4-5bn of the half-a-trillion-dollar private equity market, the LP market was still fairly illiquid and even high-quality funds traded at a discount, says Mark McDonald, global head of private equity at DWS, the independently listed global asset manager (formerly Deutsche Asset Management). "Very high-quality funds were going at 10-25% discount, or more. Now it seems that par appears to be the new discount and we have heard of quality fund names trading at more than 125% of NAV," he says, adding that this is why his team's strategy is currently focused away from the "vanilla LP market".

"It makes sense for an LP to sell in this market. Why not get a premium to your holding value for a private equity manager that you may not wish to re-up with?" says McDonald. It also fits in with the trend of LPs wanting to commit larger amounts to fewer managers; it makes sense to recycle non-core commitments into new funds offering potentially attractive co-investment and other ancillary benefits, he says.

Getting picky

With more appetite on both the buy- and sell-sides, GPs are not idly sitting by and have also begun to realise their own power in the process. They have notably seen the value of intimately knowing their LP pools and exercising approval rights on secondary sales.

LP-led deals dominate the market and given the high prices, those that were sitting on the sidelines are now getting involved.

Denise Ko Genovese reports

“Almost 80% of our transactions are with GPs we are invested with on a primary basis. Often there are restricted processes since GPs prefer working with buyers whom they know and have a long-standing relationship with,” says Pinal Nicum, partner at Adams Street Partners.

Approved buyers lists are common, and terms of LPAs generally dictate that LPs must seek the GP’s approval ahead of every transfer. This raises the issue of pricing, as a competitive bidding process is necessary for the LPs’ interests to be best served, and this is where advisory firms earn some of their fees, managing the dynamic between restricted lists and healthy competition.

Good vintage

A large part of LP-led deals that are getting done are tail-end funds, given the large amounts of fundraising that took place between 2007 and 2009.

The appetite for older-vintage funds is, in part, pressure to put capital to work. Investing in tail-end is a quick way to build NAV, get diversification, and show attractive entry prices compared to NAV and therefore high IRR shortly after closing. It can be a short-term play though, cautions Flexstone’s Revolte.

Some say tail-end funds are less risky, as the underlying portfolio has relatively little upside left, but also have very little downside although these portfolios correlate strongly to the public markets. Over the past year, some of these portfolios have traded even close to par, says Immanuel Rubin at Campbell Luytens.

“Some secondary funds prefer playing for growth, while others prefer tail plays, it is all about your strategy and factoring in the risk/return”

Immanuel Rubin, Campbell Luytens

Although less common, early secondaries (buying stakes in less mature funds) is becoming a feature in the market, with firms such as Ardian raising funds dedicated to the strategy.

Less mature funds (5-8 years old) have more growth potential in the underlying assets and one may see secondary investors pay a premium for these, says Campbell’s Rubin. The lack of growth in tail-end portfolios makes younger vintages more attractive, which explains some of this premium.

“Some secondary funds prefer playing for growth, while others prefer tail plays, it is all about your strategy and factoring in the risk/return,” says Rubin.

Whatever the strategy, the fundamental appeal of secondaries remains. Be it tail-end or less mature vehicles, secondary funds generally invest with a significantly lower risk profile than direct private equity funds. The latter’s investments carry risk in the first few years of investment, which, by nature of investing in later years, the secondary market avoids.

With record levels of dry powder, leverage readily available, and a commensurate appetite from sellers, momentum in the LP-led space is unlikely to abate for some time. ■

GP-led secondaries boom as stigma subsides



Gareth Morgan
Research manager

While the term GP-led transaction might be relatively new, what the term entails has been a significant presence in the secondaries market for a number of years. These deals are motivated by a range of factors, and encompass a variety of structures, hugely dependent on circumstance. The common thread, however, is that they are initiated by the fund manager, rather than its LPs.

The first wave of GP-led transactions on the secondaries market were concentrated around venture capital funds in the early 2000s just after the dot-com boom. By the nature of their investments, these funds held minority positions in companies, and so lacked the control to force a sale. The only way to generate liquidity for the fund and its investors, therefore, was to use the secondary market, either at a fund or a portfolio level.

Following the financial crisis, GP-led transactions were primarily in the form of restructurings undertaken by managers as a last resort in trying to maintain or re-organise their franchise, often with a new group of LPs. This era contributed to the market perception of GP-led

deals as the realm of underperforming managers and with the stigma of forced sales attached.

Over more recent times, several groups have chosen to explore the GP-led route, despite the negative connotations, in an attempt to solve particular problems they were facing, and have been successful in finding solutions.

A trailblazing transaction took place in November 2014, with ICG European fund 2006 selling its portfolio of 27 investments into a new vehicle backed by Landmark Partners, giving existing LPs the option to take liquidity or roll stakes into the new vehicle.

“The completion of this deal marked an inflexion point in the market,” says Thomas Liaudet, partner at Campbell Lutyens. “There have been a lot of high-performing managers leading transactions since.”

State of the market

In 2015, all restructured funds were below their hurdle rate. The speed with which GP-led transactions have become an accepted part of the market and changed this picture is evident in statistics from Hamilton Lane, which show that in 2017-2018 more than 60% of transacted NAV was in funds which were above their preferred return, as of May 2018.

Data from Campbell Lutyens shows that GP-led deals accounted for 31% of the \$70.1bn transacted volume in 2018, up from 25% in 2017, and 22% in 2016, reflecting the broad range of reasons to undertake these deals on all sides, and the fact that large deals have been completed in recent times.

“Alongside the headline-grabbing large funds restructurings, there are a lot of smaller processes going on, particularly around funds-of-funds”

Thomas Liaudet, Campbell Lutyens

From stapled tender offers to single-asset restructurings, GP-led secondaries transactions have been grabbing headlines over recent years. Gareth Morgan investigates how increasingly creative structures are solving a variety of problems

“The size of restructured funds recently is contributing to their proportion in the secondaries market,” says Liaudet. “Alongside the headline-grabbing large funds restructurings, there are also a lot of smaller processes going on, particularly around funds-of-funds.”

With the number of funds older than 10 years with NAV greater than \$20m growing year-on-year to around 700 globally in 2018, according to Hamilton Lane data, there is a mutual interest between the GPs and LPs involved in these funds to realise value. For GPs, a liquidity option for LPs can boost future fundraising, portfolio companies in need of follow-on capital unavailable from a tapped fund can be financed and their potential value realised, and a declining stream of management fee income can be revitalised.

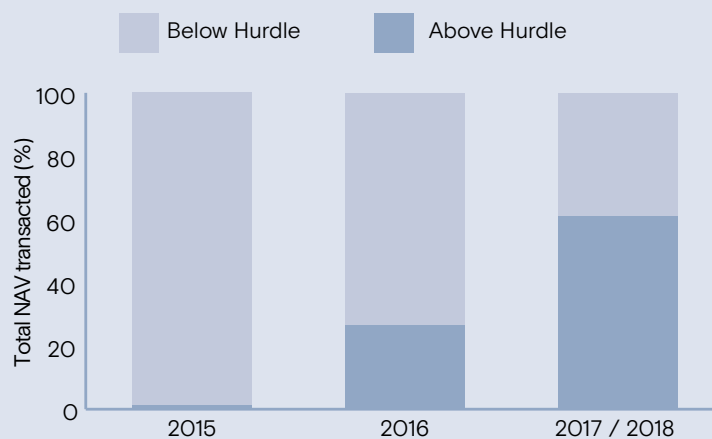
A feature of the market that is enjoying a resurgence is restructuring with a stapled component. Previously the hallmark of struggling GPs attempting to raise a new fund by any means necessary, these have now become more common. With secondaries groups raising increasingly large amounts of capital, primary commitments are a way to hasten deployment, strengthen relationships with GPs and also offer an advantage in the bidding process for secondaries deals.

For multi-strategy firms, these structures can offer the opportunity to accelerate fundraising across platforms: In 2017, EQT led a process on its 2011-vintage EQT VI, with Partners Group as buyer committing to EQT Mid Market Asia III as part of the deal.

Maintaining flexibility

An additional deal structure that demonstrates the flexibility of these transactions is a single-asset restructuring, in which the last remaining asset in a fund is transferred into a new vehicle. These offer a method for GPs to continue to manage individual companies, while providing a liquidity option to backers of the fund. A recent high-profile example is Perstorp, a Swedish chemicals company owned by PAI Partners through PAI Europe IV. In September last year, 13 years after the original investment, the asset was transferred into a new fund with new capital from Landmark Partners and co-investors, some of whom were LPs in the original fund. This business had been through a difficult period, having ►

Performance against hurdle of restructured funds



Source: Hamilton Lane Data (as of May 2018)

“An important element of GP-led transactions is ensuring that LPs feel informed and apprised. Transparency in the process is key to it succeeding”

Richard Hope, Hamilton Lane

required an additional equity injection in 2010, and the recap of its debt burden in 2012, but was beginning to turn a corner, reducing leverage and growing EBITDA. Restructuring this into a new fund enabled PAI to raise capital to finance growth opportunities for Perstorp and liquidate a fund in the 13th year of its life. From a rarity, these transactions have grown to become more common, not least because of the disruption caused to the trajectory of portfolio companies by the GFC, and the time limits imposed by the traditional 10-year limited partnership fund structure. As with other GP-led secondary transactions, single-asset restructurings offer the opportunity to solve particular problems in a way that works for all stakeholders.

Out of the comfort zone

As with most things, there are also drawbacks for these types of deal. “GP-leds are relatively complex and can take a long time to complete compared with a portfolio sale,” says Liaudet. “For some LPs it can be difficult to get comfortable with these deals, not least due to time constraints on small teams, and often the appointment of an adviser will be driven by LP demands, as they provide an additional level of comfort.”

“It can be the case that LPs feel as though there is something they are not being made aware of,” says Richard Hope, managing director at Hamilton Lane. “An important element of GP-led transactions is ensuring that LPs feel informed and apprised. Transparency in the process is key to it succeeding.”

With buyers and advisors becoming increasingly creative in the structuring and financing of GP-led processes, and LPs rapidly gaining an understanding of the benefits these deals can bring, GP-led secondaries are likely to become a common feature of the industry. ■

Notable recent GP-led deals

GP	DEAL STRUCTURE	KEY POINTS
Nordic Capital	Continuation vehicle	11% premium on NAV paid by Collier Capital and Goldman Sachs Asset Management. 60% of LPs sold, with the remainder rolling into a new five-year continuation fund. Underlying value of €2.2bn, with around €1.5bn of NAV transacted.
Investcorp	Continuation vehicle	Six deal-by-deal companies rolled into new vehicle, backed by Collier Capital. \$650m in secondary capital alongside more than \$300m in primary commitments, with GP transferring all carry from the deals into the vehicle.
BC Partners	Tender offer with staple	Lexington Partners lead \$1bn stapled secondary, acquiring stakes in BC Partners 2011-vintage ninth fund, as well as committing primary capital to subsequent fund.
Investindustrial	Continuation vehicle	2008-vintage fund, with remaining investments that suited a five-year business plan. LPs offered liquidity, or the chance to roll over, with 55% of continuation fund provided by existing LPs.
TDR Capital	Single-asset restructuring	Stonegate Pubs, the remaining asset in the 2007-vintage TDR Capital II, moved into a continuation vehicle backed by Landmark Partners and Goldman Sachs, and managed by TDR.

Source: Unquote



Unquote and its affiliate reports are published by
Mergermarket Ltd
10 Queen Street Place, London, EC4R 1BE
+44 (0)20 3741 1000

Entire contents © 2019 Mergermarket Ltd
ISSN 1465-9719

All rights reserved. No part of this publication may
be reproduced, stored in a database or electronic
retrieval system, transmitted in any form or by any
means, electrical, mechanical, photocopied, recorded
or otherwise, without prior written permission from
the publishers.

Copy & Production Editor – Tim Kimber
Managing Director – Catherine Lewis

For advertising enquiries – Thomas MacKinnon
+44 (0)20 3741 1389 thomas.mackinnon@acuris.com
For subscription enquiries – Omar Khazen
+44 (0)20 3741 1388 omar.khazen@acuris.com



Campbell Lutyens has advised on some of the largest and most innovative secondary transactions globally.

 **Manulife**

John Hancock

\$2.0bn

Largest US secondary transaction in 2018

2018

 **NORDIC CAPITAL**

\$3.0bn

The largest ever GP-led transaction

2018


MUBADALA

\$2.5bn

The largest ever stapled secondary transaction

2017

BC Partners

\$1.0bn

The largest ever secondary tender offer for a private equity fund

2017

Celebrating 30 years of delivering results for our clients through thoughtful, creative advice and meticulous execution

www.campbell-lutyens.com

Member FINRA/SIPC | Authorised and regulated by the Financial Conduct Authority |
Licensed and regulated by the Securities and Futures Commission |
Licensed by the Monetary Authority of Singapore

**CAMPBELL
LUTYENS**

