SECONDARIES[1]

By Kirsty Harshaw

The "Secondaries" panel discussed the growing volume of secondaries with regards to both, the traditional LP-led secondaries, and the more recent growth in GP-led secondaries.

What is the deal volume in the secondaries market and how has this developed? The panellists discussed that in a period when fundraising and the exit environment is falling, secondaries (both LP-led and GP-led) have taken advantage of this and are experiencing a significant time of growth. LP-led secondaries are thriving to free up liquidity and GPs are seeking to hold onto their assets. GP-led secondaries are growing, particularly in the single asset space and we can expect to see more this year.

What's the key driver behind the growth of the secondaries market? Secondaries offer LPs a chance of liquidity, and whilst some sponsors are offering open ended funds to deal with the continued lack of liquidity the panel highlighted that more innovative methods are also being used through secondaries. From a GP perspective given the current market (i.e. IPO and M&A markets slowing), GPs are keen to hold onto their investments and secondaries enable this. Secondaries are not just being used as an option for when assets are performing badly but for when assets are performing well as GPs are seeking opportunities to expand their investments.

What's the general structure of transactions? The panel noted that typically the secondary fund establishes an SPV for the purpose of obtaining the financing and holding the portfolio investments, and essentially everything is transferred into this SPV.

How do you get over cash flow issues and are there capital calls left? Cash flow is slower, but it is picking up and the panellists noted that whilst some portfolios do have high levels of commitments which are unfunded, this is not always the case. On that basis, even though distributions are slow, they are still outstripping the unfunded position. In some situations, you can take additional security (by way of cash or guarantee etc. to cover lender's exposure).

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[1] Panelists included Thomas Rapp (Wells Fargo); Cassie Fisher (Lloyds Bank); Stuart Ingledew (Investec); Dave Moloney (ICG); and Kieran Welsh (Partners Group).

The panellists also remarked on the fact that capital overhang in the secondary market is in a very good position, currently sitting at 1-1.5 times, compared to the primary buy-out space which sits at 3-3.5 times. It is worth noting that as a lender this means there are high quality opportunities available, and you must be competitive. Transactions require you to understand what the buyer is trying to achieve, and the emerging theme is that transactions are of high quality.

Are there non-bank lenders in the secondaries space? Portfolios with less mature vintages will have a high proportion of uncalled capital, and may not be a natural fit for a bank lender. Non-bank lenders can provide a higher loan-to-value and be more flexible, which allows, for instance, distributions to be re-invested into the portfolio.

What's the outlook on GP-led secondaries? Traditionally secondaries were offered when investors didn't get distributions and fundraising was slow, however, motivations for GP-led transactions have evolved over the last few years and given the difficult exit environment GPs are forming continuation vehicles which allows the GP to continue to hold the asset. The panellists noted that we have moved from the '*zombie fund'* and we are seeing more GPs and blue-chip GPs taking on single asset continuation vehicles. The panellists highlighted that single asset continuation vehicles now make up around 50% of GP-led vehicles and there is still a lot of growth potential.

What's the verdict? The panel remarked that secondaries are increasing as a result of the relative value that you can extract in comparison to a primary buy-out, with the M&A environment picking up this year it should be a good year for secondary investments.