SECONDARIES SPECIAL
35-page special report

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Who tops the tree?

- Pomona Capital
- Grosvenor Capital
- Blackstone Strategic Partners
- Goldman Sachs Asset Management
- Glendower Capital
- Adams Street Partners
- AlpInvest Partners
- Coller Capital Group
- Landmark Partners
- NewQuest Capital Partners
- Paramount Capital Partners
- Blackstone Strategic Equity
- StepStone Group
- LGT Capital Partners
- StepStone Group
- Madison International Realty
- Pantheon
- GCM Grosvenor
- Northleaf Capital Partners
- North America
- United Kingdom
- Europe
- Asia

Figures represent capital raised between 1 January 2014 and 30 June 2019 ($m)
Secondaries fundraising figures have mushroomed in this year’s ranking. What’s the reason behind it, and is it sustainable? Rod James reports

Secondaries firms are having no problem putting capital to work, as record half-year deal volume figures suggest. They aren’t struggling to replenish their stores of dry powder either. Ardian remains top of this year’s SI 30, our proprietary ranking of secondaries firms based on five-year fundraising totals, but in a greatly strengthened position. The Paris-headquartered manager has raised $47.3 billion for secondaries in the five years to 30 June, a 67 percent increase on last year’s ranking.

Lexington Partners remains in second place, also with its firepower greatly enhanced. The New York-headquartered firm has collected $23.8 billion over the five-year period, a $7.1 billion increase on last year’s ranking.

Strategic Partners, Landmark Partners and Goldman Sachs Asset Management, which make up the next three spots, have seen their firepower increase by $7 billion, $5.5 billion and $1.9 billion respectively compared with last year’s ranking.

The growth in secondaries fundraising is a direct result of events in the primary market. Primary investors have for years bemoaned the lack of high-quality acquisition targets and that those that do exist are priced to the skies. In response, private equity firms are increasingly looking at ways to

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<tr>
<th>SI 30</th>
<th>Firm</th>
<th>Fundraising (USD)</th>
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<tr>
<td>23,830</td>
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Who tops the tree?
Analysis

hold on to businesses they like rather than sell them after three to five years.

One way they are doing this is through single-asset restructurings, which general partners such as Bridgepoint, Warburg Pincus and Bluegem Capital Partners have embarked on in the past year. Others are dabbling with evergreen fund structures, such as CVC Capital Partners, which in July raised €4.6 billion for its second long-term Strategic Opportunities Fund.

The more GPs that try to hold on to assets rather than exit them, the greater the potential for misalignment with their LPs, who might prefer liquidity now over returns later. This opens up a gap that secondaries funds are more than happy to fill. And while these dynamics exist, there is nothing to suggest a reversal any time soon.

A long way up

Being so much bigger than the opposition has its advantages but it’s not without peril. Ardian’s dominance at the top of this year’s list is largely down to the $19 billion raised for its latest flagship fund ASF VIII, which, when closed, will rank among the largest private equity funds ever raised. The Paris-headquartered manager’s secondaries funds have shot up in size since it spun out of French insurer AXA Group in 2013. It raised $14 billion for the 2015-vintage ASF VII, double that for Fund V, the last raised under the auspices of its former parent.

Being that much larger than the competition brings certain advantages. Ardian has the capital to buy portfolios of any size and can always outbid the opposition, a hand further strengthened by its liberal use of leverage.

“We got blown out of the water,” says a firm that tried to compete with Ardian on a 2017, $2.5 billion stapled secondaries deal involving Abu Dhabi sovereign wealth fund Mubadala Capital.

Having so many types of fund – Ardian has early, energy and infrastructure secondaries funds – means it can act as a one-stop-shop for LPs that want to offload

<table>
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<tr>
<th>2019</th>
<th>2018</th>
<th>Manager</th>
<th>Capital raised ($m)</th>
<th>Headquarters</th>
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Source: PEI
Lexington Partners: The First Name in Secondary Solutions.

Lexington Partners is a leader in the global secondary market. Since 1990, we have completed over 480 secondary transactions, acquiring more than 3,000 interests managed by over 690 sponsors with a total value in excess of $42 billion. For over 25 years, we have excelled at providing customized alternative investment solutions to banks, financial institutions, pension funds, sovereign wealth funds, endowments, family offices, and other fiduciaries seeking to reposition their private investment portfolios. Our unparalleled global sponsor relationships, capital resources, and reputation as a reliable counterparty are widely recognized, and we have skilled professionals to work with you in six locations. To make an inquiry, please send an email to info@lexpartners.com or call us at one of our offices.
## Analysis

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Source: PEI

## Methodology

The 2019 SI 30 ranking is based on the amount of dedicated secondaries capital raised by firms between 1 January 2014 and 30 June 2019.

### What counts?

**Structures:** Limited partnerships; co-investment funds; separate accounts; capital raised by secondaries firms that happen to be publicly traded; seed capital and GP commitment.

**Strategies:** Private equity secondaries; real estate secondaries; infrastructure secondaries; real assets secondaries; dedicated direct secondaries funds; secondaries specific capital raised by funds of funds.

### What does not count?

Direct private funds (private equity, real estate or infrastructure); hedge funds; opportunistic capital raises; deal-by-deal capital raises; PIPE investments; debt funds, including mezzanine funds; leverage; soft circle commitments.

### Definitions:

**Secondaries:** For purposes of the SI 30, the definition of secondaries capital is capital raised for a dedicated programme of investing directly into the secondaries market. This includes equity capital for diversified private equity, real estate, buyout, growth equity, venture capital and turnaround or control-oriented distressed secondaries investment opportunities.

**Capital raised:** This means capital definitively committed to a secondaries investment programme. In the case of a fundraising, it means the fund has had a final or official interim close after 1 January 2014. You may count the full amount of a fund if it has a close after this date. And you may count the full amount of an interim close (a real one, not a ‘soft-circle’) that has occurred recently, even if no official announcement has been made. We also count capital raised through co-investment vehicles.
large, varied portfolios with minimal fuss. Huge portfolios, such as the roughly $5 billion-worth of stakes offloaded by Japan’s Norinchukin Bank in the second quarter, require more work to diligence. But Ardian has as much, if not more, fund data at its disposal than the other large secondaries firms, easing the burden somewhat, a competitor buyer tells us.

Scale also has a downside. With large amounts of dry powder to spend, big deals are needed to move the needle on returns; deals with great upside potential may have to fall by the wayside for being not quite big enough. The larger a firm gets, the less nimble it inevitably becomes. If, for whatever reason, secondaries deal volumes dried up, what would Ardian do with all that capital, particularly as, unlike some of its peers, it has traditionally shied away from GP-led deals? These questions are unlikely to concern the firm for now as it bulldozes towards an expected fourth-quarter final close.

*A limited supply of good assets] creates a misalignment between LPs*

GERALD COOPER
Campbell Lutyens

Preferred equity giants Whitehorse and 17Capital have each raised as much capital as firms in the lower half of this year’s SI 30

Newbury Partners (20)  
$2.55bn

$2.89bn Whitehorse Liquidity Partners

$2.02bn 17Capital

$6.50bn AlpInvest Partners (10)

$1.28bn Altamar Private Equity (30)

$17.03bn Goldman Sachs Asset Management (5)

$47.30bn Ardian (1)

Source: PEI (2019 SI 30 ranking)
Greenhill Secondary Advisory

Having advised more than 380 limited partners, general partners, and other institutional investors on over $300 billion of alternative asset commitments, one thing is clear:

Greenhill is the first choice in secondary advisory.
liquidity from their portfolio without selling it. For example, if a pension fund wanted to generate liquidity, it could move part of its portfolio into a special purpose vehicle in which the preferred equity provider is a senior LP. The preferred investor gives cash to the LP via the SPV and gets preferential cashflows from the assets held within it.

Though intermediaries put the total size of the preferred equity market at $3 billion-$4 billion, in a podcast with sister publication Secondaries Investor, 17Capital partner Augustin Duhamel said the firm saw $10 billion in potential deals last year.

In this bull market, the liquidity provided by preferred equity firms is mainly being used to make additional investments. In a downturn, its use is likely to become more defensive in nature.

During the last financial crisis, many LPs were forced to sell portfolios at huge discounts as they tried frantically to push unfunded obligations off their books. Next time around sellers in need of liquidity have a new avenue to explore that doesn’t require a fire sale.

**Feast and famine**

Secondaries fundraising has long been lumpy, its volume dependent on the biggest names in the market. This situation is magnified when you move away from private equity into other strategies. Metropolitan Real Estate Equity Management’s $1.2 billion Fund II was the only dedicated real assets secondary fund to close during the first half. In 2018, real assets secondary funds raised $5.88 billion, more than three times the amount raised the year before, though this was largely down to two funds hitting final close: the $3.3 billion Landmark Real Estate Partners VIII and the $1.75 billion Strategic Partners Real Assets II.

Carlyle subsidiary Metropolitan is one of three real assets specialists to make it into the SI 30. It is joined by Stafford Capital Partners, which makes secondary investments through its infrastructure and timberland funds of funds, and Madison International Realty, which provides equity capital directly to real estate owners and investors that need liquidity. Of the top 10, six have raised dedicated real asset secondary funds.

**Opportunities ahead**

The lumpiness of fundraising reflects the available market opportunity. Real estate secondaries volumes dropped 12 percent to $5.3 billion in 2018 from $6 billion the year before, largely due to the lack of $1 billion-plus portfolio sales brought to market that year, according to Landmark Partners.

The longer-term, lower-risk nature of asset classes like real estate and infrastructure make price less important, so sellers are less likely to opportunistically bring portfolios to market.

The growth of GP-led deals could help drive fundraising. Credit funds accounted for 20 percent of GP-led deals by volume in the first half, according to Greenhill, having been so insignificant as to come under the ‘Other’ label in the previous report.

A possible downturn in 2019-20 could cause credit GPs and LPs to assess their options, says Jeff Hammer, until recently Houlihan Lokey’s co-head of illiquid financial assets.

On the infrastructure side, similar dynamics to what we have seen in private equity are taking hold, where a limited supply of good assets is causing GPs to hold on to what they have got.

“That creates a misalignment between LPs. It’s a really interesting dynamic that we believe will create a sizeable market opportunity for GP-led secondary transactions,” says Gerald Cooper, a partner with Campbell Lutyens.
Glendower Capital

$2,731,388,318

Glendower Capital
Secondary Opportunities Fund IV, LP

A limited partnership and its dedicated feeder and overflow vehicles formed to invest globally in seasoned private equity interests, across traditional fund secondaries, GP-led transactions, and single-asset deals alongside private equity sponsors.

July 2019
KEYNOTE INTERVIEW

Navigating a booming secondaries market

AlpInvest Partners’ Wouter Moerel and Chris Perriello, managing directors and co-heads of the firm’s secondaries investment team, discuss growth in the secondaries market, why they don’t use leverage and what a worst-case scenario could look like

How do you view the growth of the secondaries market in the past few years?

Wouter Moerel: If you think of the $70 billion that transacted last year, around two-thirds of that was the LP market and one-third was the GP-led market. The LP portfolio market has seen exponential growth. High valuations have meant there are more sellers. Buyers that focus on that market increasingly used structuring and leverage to continue buying assets at higher prices and at higher underlying valuations. At the end of the day, it is becoming a bit of a vicious circle. In this market segment, we see more lower quality assets being sold out of older funds that already contain difficult-to-sell companies or companies that have been underperforming, as well as funds where there is less future value creation.

In the GP-centred market, the growth has been fuelled by a broader set of GPs who now see the secondaries market as a tool for them to try to meet their objectives and as no longer carrying a negative connotation. This development has played into our theme of partnering with quality GPs as the universe of opportunities now includes some of the higher quality GPs in the market. They can either: have an opportunity to refresh their LP base; set up a continuation fund with a new time horizon to realise the full potential of an asset or group of assets; or create an opportunity to help facilitate fundraising.

How has the competitive landscape changed amid that growth?

Chris Perriello: There's been a lot of capital raised, but it's been raised by primarily the same firms that have been around for many years. The number of competitors hasn't really changed. The biggest driver of competition for us has been the use of leverage by our peers, which has impacted how we think about pricing much more rather than the amount of dry powder.

We have stayed away from using leverage and generally avoided the broader LP portfolio deals that have dominated the market volumes over the past few years. We don't believe that in these market conditions the risk/reward makes sense to essentially buy the levered index. Fundamentally for us, the
key is to create a portfolio with the following characteristics: low volatility/capital preservation and a solid and consistent cash-yielding profile return. If we add leverage to our transactions, we would change both of those characteristics.

We alter the risk profile of the transaction and we change the cashflow profile back to our investors. Adding risk at that level for us doesn’t make sense.

WM: We don’t use a line at the asset level and we don’t use financing at the fund level for transactions. We have a working capital facility at the fund level, but we use that exclusively for capital call management and don’t underwrite deals using this facility as leverage.

Leverage also delays cashflow back to investors. Secondaries investors like AlpInvest, first and foremost, seek to avoid the J-curve and negative cashflow. In a secondaries portfolio, you typically start getting cash back almost immediately as opposed to year five in a typical buyout portfolio. But if you need to give some of that cash back to the bank, you’ve created the same J-curve. The primary purpose of doing secondaries – early cashflow back – is gone. That’s another pitfall of leverage. It can defeat the purpose of secondaries investing.

What has AlpInvest focused on in this environment?

CP: We’ve deployed the same amount of capital on a per annum basis over the past five to eight years even though the market has doubled. Over that period, we have deployed on average between $1.5 billion and $2.25 billion per year. Our focus on quality and selectivity has kept this deployment pace relatively stable despite the overall growth of market volumes. Our unwillingness to veer from our core strategy leads to a more focused approach around a smaller number of transactions per annum, which is typically around 10 to 12 deals closed. Some secondaries investors are doing 50 to 100. We focus on asset and GP diligence as our key risk mitigant rather than on the value of diversification for the sake of diversification.

In the GP-centred market, we’re trying to find unique situations where we can partner with a GP we have conviction in and where we have an asset pool that has a story around value creation. In most cases that also includes providing new capital to realise that plan. In all cases the GP is putting money alongside us and understands we’re going to be partners. The need for us to have all these key elements in each transaction limits the GPs we will partner with. We haven’t done many intermediated tenders – alignment is often challenging in that setting and usually leads to peak pricing. You’re not resetting economics or getting GPs to invest alongside in those cases, which limits our ability to create the alignment we need. We’ve focused on high-quality GP-led restructurings, whole or partial asset sales, and we still invest in stapled transactions with GPs we like.

What has your approach been on the LP side in recent years?

CP: Our niche in the LP portfolio market has always been the same. We focus on buying LP interests in three- to six-year-old funds in high quality GPs we have conviction around and where we have natural alignment. We trade at or around par to net asset value because in most cases we are buying funds that have not been marked up yet and we’re aligned with the GP. We’re staying away from the large portfolios, older assets and lower quality GPs. We don’t believe there’s a price for everything. We haven’t changed our strategy on the LP portfolio side, we just adjusted how much capital we put to work in that segment based on the market conditions.
Risky business

Investors in secondaries – private equity’s fastest-evolving strategy – should question whether their managers have sufficient and relevant expertise

Sevenfold. That’s how much the secondaries market has grown over the last 10 years. With as much as $74 billion trading last year, one of the fastest-growing segments in private markets is showing no sign of slowing down – good news for the swarms of advisors, secondaries firms and service providers all keen to get in on the action.

Yet, look under the surface and you’ll find a market full of hidden risks. Some of these pitfalls are similar to those in other private equity strategies but are more acutely felt, while others have arisen within the secondaries industry, particularly as the market has become more complex.

Through discussions with dozens of market participants from different segments of the industry, we’ve identified some of the key risks investors in secondaries should be aware of. Take single-asset restructurings, in which a GP moves a sole asset out of one of its existing funds into a continuation vehicle backed by secondaries capital. These deals can allow managers more time to create value in a company they know better than anyone else, while giving the option of liquidity to LPs who want it, its proponents say. But for the secondaries buyer, such deals come with heightened concentration risk on a company, sector or regional level.

Another is hidden tax risks, as lawyers Raj Marphatia and Jianing Zhang from Ropes & Gray discuss on p. 44. Whether a buyer of an LP fund interest is required to withhold tax on the proceeds payable to the seller is an issue that can scupper potential deals, as they discuss in a fascinating case study involving an India-focused fund.

All this points to the heightened need for greater scrutiny of the industry, most of which can come from within. LPs are the ones best placed to push for more thorough due diligence on their managers’ capabilities by asking questions about competency. GPs arguably stand to benefit too from a more robust industry that won’t implode when a big deal goes south – and one will. Greater transparency results in better long-term outcomes for all.

One group with a keen interest in the long-term resilience of the strategy will be this year’s Young Guns (p. 48), 20 professionals under 36 we have selected as the industry’s most promising rising stars. As the market continues to evolve, these are the people who will be seeing through its next iteration – in fact, many of them are driving its evolution today.

This year we have six women in the list, the highest number so far. With women representing just 30 percent of the overall private equity industry and a mere 6 percent of senior level positions, it’s encouraging to see more women being recognised. But there is still a long way to go.

All-round view
One person who knows a lot about how far the industry has come is Michael Granoff, chief executive of Pomona Capital. Granoff was one the market’s early pioneers and founded his secondaries firm in 1994. In the early days, LPs didn’t even think they could sell their interests in private funds. “They thought, you’re in, that’s it, there is no out,” he says. “It was a new idea, a new concept for most LPs to think about the fact that, maybe I have an option.”

Granoff’s advice for young professionals looking to enter the secondaries industry today? Stick to your values while being adaptable. “The people who I think are the most successful are people who combine those things because they are grounded in one way,” he says. “They’re not taking risks they shouldn’t take, but they’re always open and looking for new ways to do things, thinking about the issues in a more 360-degree way. I think that’s what it takes to be successful.”

Advice worth heeding.

“GPs arguably stand to benefit … from a more robust industry that won’t implode when a big deal goes south – and one will”
LGT Capital Partners is a leading investor in private equity and a specialist in secondaries, with over USD 31 billion in private assets under management. The firm provides portfolio management solutions to investors and liquidity solutions to managers, focusing on:

- Buyout, growth equity, real estate, infrastructure and venture capital
- European, US and Asian assets
- Special situations, such as general partner-led situations and spin-offs

For further information, please contact André Aubert (andre.aubert@lgt.com) or Sascha Gruber (sascha.gruber@lgt.com).
Secondaries:

The strategy has evolved from focusing on diversification and J-curve mitigation to one making concentrated bets on often highly complex deals. Investors unaware of the potential risks face hidden dangers, write Adam Le and Rod James
Avoiding the hidden risks

When New York-based VCFA Group raised the first secondaries fund in the early 1980s, the idea was simple: acquire interests in private equity funds on a secondary basis and provide liquidity to limited partners in a highly illiquid asset class.

In the three-and-a-half decades since, the secondaries market has grown from a cottage industry to one impossible to ignore. In the last decade, annual deal volume – measured by the purchase price plus the unfunded commitments a buyer agrees to take on – has grown more than sevenfold. Last year’s estimate was $74 billion, according to advisor Greenhill, and some predict total deal value will eclipse $105 billion this year.

Investor appetite for the strategy remains strong. Almost 50 percent of limited partners intend to participate in the secondaries market this year, either as buyers or sellers or both, according to Private Equity International’s LP Perspectives Survey 2019. Half of LPs surveyed also plan to commit capital to secondaries funds this year, adding to the roughly $125 billion in dry powder available for the strategy, including leverage.

With the market’s phenomenal growth has come a dramatic shift in the types of deals secondaries firms are investing in.
Gone are the days of simply acquiring diversified portfolios of LP stakes. Secondaries firms today face a multitude of investment opportunities, including GP-led fund restructurings, preferred equity transactions, single-asset deals and stapled transactions, and the availability of cheap leverage has added fuel to the fire.

“You’re starting to see some of the same issues emerge in the secondaries market that you see on occasion in the buyout market – some may be using financial engineering as a focus and put greater precedence on that versus underwriting assets in detail,” says Mark McDonald, global head of private equity at DWS.

As processes become more efficient and auction timeframes narrow, there is a risk that some secondaries managers won’t be resourced enough or have the time or relationships to conduct the level of scrutiny and diligence they once did, he adds.

It wasn’t until after 2013 that fund restructurings really took off with multiple, higher profile deals involving firms such as Motion Equity Partners and Diamond Castle Holdings prime examples. “Now we’re six years in and there’s a fund recapitalisation twice a month,” says Jon Costello, head of Park Hill’s secondaries advisory group.

Secondaries market sources have a common concern: the characteristics of today’s market – high leverage levels in the form of acquisition financing, coupled with new and riskier deal types – have not been tested in a down market or financial crisis.

“Everything goes well as long as the companies are doing well and the cashflows are developing well, but it’s going to be a problem in the case of a downturn,” says Philippe Roesch, managing partner at private equity advisor RIAM Alternative.

Secondaries underperformed ILPA’s All Funds benchmark across all time periods*

<table>
<thead>
<tr>
<th>Net IRR (%)</th>
<th>1 quarter</th>
<th>1 year</th>
<th>3 year</th>
<th>5 year</th>
<th>10 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td></td>
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<td>0</td>
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</tbody>
</table>

*Data accurate as of 31 March 2019
Source: ILPA and Cambridge Associates
Innovation and leadership in secondary advisory

Our dedicated, award winning global team delivers sound advice and expertise to our clients to exceed transaction expectations.

Selected recent transactions—Americas

<table>
<thead>
<tr>
<th>Project</th>
<th>Value</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td><strong>Project Whirlpool</strong></td>
<td>CAD 150,000,000</td>
<td>Preferred equity financing for a portfolio of private investments</td>
</tr>
<tr>
<td>May 2019</td>
<td>Exclusive Advisor</td>
<td></td>
</tr>
<tr>
<td><strong>Project Tango 1</strong></td>
<td>CAD 450,000,000</td>
<td>GP sponsored restructuring of an infrastructure fund</td>
</tr>
<tr>
<td>February 2019</td>
<td>Lead Advisor</td>
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</tr>
<tr>
<td><strong>Project Falcon</strong></td>
<td>$663,000,000</td>
<td>GP sponsored sale of PE LP interests and a co-investment with primary staple</td>
</tr>
<tr>
<td>April 2018</td>
<td>Exclusive Advisor</td>
<td></td>
</tr>
<tr>
<td><strong>Project Continental</strong></td>
<td>$176,000,000</td>
<td>Sale of a co-investment position</td>
</tr>
<tr>
<td>January 2018</td>
<td>Exclusive Advisor</td>
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<tr>
<td><strong>Project Universe</strong></td>
<td>$190,000,000</td>
<td>GP sponsored partial sale of a direct investment in a portfolio</td>
</tr>
<tr>
<td>December 2017</td>
<td>Exclusive Advisor</td>
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Selected recent transactions—EMEA & Asia

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<thead>
<tr>
<th>Project</th>
<th>Value</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Augusta</strong></td>
<td>$1,000,000,000</td>
<td>Sale of a portfolio of PE Investments and GP spin-out</td>
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<tr>
<td>July 2019</td>
<td>Exclusive Advisor</td>
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<tr>
<td><strong>Project Tango 3</strong></td>
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<td>GP sponsored restructuring of an infrastructure fund</td>
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<tr>
<td>March 2019</td>
<td>Lead Advisor</td>
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</tr>
<tr>
<td><strong>Project Tango 2</strong></td>
<td>AUD 450,000,000</td>
<td>GP sponsored restructuring of an infrastructure fund</td>
</tr>
<tr>
<td>February 2019</td>
<td>Lead Advisor</td>
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<tr>
<td><strong>Project Do-re-mi</strong></td>
<td>$205,000,000</td>
<td>GP sponsored restructuring of a PE fund</td>
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<tr>
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<tr>
<td><strong>Project Aphex</strong></td>
<td>€258,000,000</td>
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<tr>
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<tr>
<td><strong>Project Scala</strong></td>
<td>€325,000,000</td>
<td>GP sponsored sale of PE LP interests with team spin-out</td>
</tr>
<tr>
<td>November 2017</td>
<td>Exclusive Advisor</td>
<td></td>
</tr>
</tbody>
</table>

- Fund Restructurings / Continuation Vehicles
- Whole Fund LP Liquidity Options
- Strategic Advisory and Valuation
- LP Portfolio Sales
- Structured LP Portfolio Transactions
- Direct Portfolio Sales

The Private Fund Group | Secondary Advisory Team
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Investments, which invests in secondaries both directly and via funds.

Roesch says one of the first questions he asks a secondaries fund manager when performing due diligence on a fund is whether they use leverage and, if so, whether they use it at the fund or deal level; what criteria is used to determine whether to use leverage; who their debt issuer is and the covenants and conditions they expect the issuer to give.

He is “very concerned” about how highly levered portfolios will perform in a prolonged downturn.

“One has to be cautious and not rule out the fact it might happen,” he adds.

Many of the risk factors facing the secondaries market are issues buyout and growth managers also face. Yet, through conversations with more than 26 market participants for this article from all corners of the market, it appears there are certain risk factors the secondaries market is less well-equipped to deal with – as well as some from which it can benefit.

**Macro wobbles**

One of these is coping with macroeconomic volatility and political uncertainty. Unlike buyout managers who control the assets they buy and when they exit, a secondaries fund provides replacement capital to LPs who want liquidity and, as such, acts as a passive investor.

Does this mean secondaries funds are at the mercy of the GPs they invest in when there is a macro wobble? Yes and no, says Thomas Liaudet, a partner at advisory firm Campbell Lutyens.

“When you buy an interest in a fund, all you receive is the fund’s latest report, a presentation from the manager’s AGM and relevant legal documentation about the fund. You’re not going to get much more on the underlying assets,” he says.

In a buyout or co-investment situation, you get much more asset level information as well as opportunities to due diligence the assets, he adds.

Others point out that per billion of assets under management, secondaries funds have lower resourcing capabilities than buyout funds.

“Say you’ve got four weeks to price a portfolio of 30 LP interests in 25 GPs, how much diligence are you doing in that period to understand the cashflow dynamics of those GPs?” asks one buyside source.

What balances this out is that the traditional or so-called “plain vanilla” part of the market involves acquiring diversified portfolios of LP interests, so the risk is spread across multiple assets. “You ultimately need less due diligence than you would if the deal was very concentrated in one asset or than if you were going to be on its board,” Liaudet says.

One such macro wobble came in June 2016 when the UK voted to leave the EU. In this case, the wobble was a blessing in disguise for dollar-denominated secondaries funds looking to acquire stakes in sterling-denominated funds. DWS’s McDonald says he was aware of at least one sizeable transaction in which the buyer was able to increase its bid while taking a further discount in dollars due to the currency swing caused by the referendum.

Of course, swings can cut both ways: an agreement to acquire a portfolio at a 5 percent discount to net asset value based on the most recent quarterly valuation date can turn into a 5 percent premium on paper if there are large swings between signing and closing – up to six months in some cases.

**Fewer LPs are opting to sell in complex deals than was the case last year**

![Graph showing percentage of LPs in tender offers and asset sales]

<table>
<thead>
<tr>
<th>Tender offers</th>
<th>Asset sales</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>% of LPs</strong></td>
<td><strong>% of LPs</strong></td>
</tr>
<tr>
<td>0</td>
<td>20</td>
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<td>0</td>
<td>20</td>
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<tr>
<td>2018</td>
<td></td>
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<td>H1 19</td>
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Source: Evercore
What the lawyers think

The secondaries market is buoyant, but market participants would be wise to suppress their exuberance. The next downturn will be the first major test of the GP-led secondaries market - processes initiated by fund managers.

When funds’ net asset values drop and LPs who rolled their interests into their GP’s continuation vehicle start to think they should have sold their interests instead, there could be legal implications.

“It’s not unreasonable to expect some stakeholders will look at ways to reverse some of those processes or recover some of the losses they might have suffered,” says a London-based fund formation partner. “That’s when people will start focusing more on how these deals were done, what was said and what was not said.”

Legal sources outlined to PEI the questions aggrieved LPs will ask:

- Did the GP satisfy its fiduciary obligations?
- Was there an undisclosed conflict of interest on the part of the GP?
- Did the GP comply with the limited partnership agreement by seeking advisory board approval?
- If not, is the LP entitled to damages?

At one end of the spectrum are prudent secondaries managers who try to mitigate potential risks by testing the market, running an intermediated process, keeping LPs involved and disclosing fully. At the other are managers taking a less robust approach to conflicts and relying simply on the fund’s LPAC for approval.

“Somewhere on that range, the regulator may zero in,” says Aleks Bakic, a partner at Akin Gump who focuses on private funds and secondaries.

Moves are already afoot to prepare for an increase in legal risk and the LPAC is the canary in the coal mine. The Institutional Limited Partners Association, which published its latest Principles 3.0 in June, is set to focus its next standalone guidance on LPAC best practices and is expected to cover GP-led secondaries within this.

LPAC members walk a tightrope. They want to represent the interests of the fund’s LPs without taking responsibility such that it brings into question their status as “limited” partners – and by extension their limited liability – says Ted Cardos, European head of Kirkland & Ellis’s secondaries practice.

It has become common for LPACs to hire their own legal counsel and demand that a GP seek a third-party valuation opinion, both at the fund’s expense. Speaking at the Invest Europe CFO Forum in June, Nigel van Zyl, a partner in Proskauer’s private investment funds group, said a growing number of LPACs are refusing to make a judgement on GP-led deals and instead throw them open to the whole LP base.

“It’s not impossible to envisage the role of the LPAC being replaced by some other mechanism, an independent expert or something like that,” adds Bakic.

Charles Smith, the firm’s chief investment officer, this is a no-brainer.

“Currency risk is risk with no return,” Smith says. Taking on political or other types of risk can be priced to generate outsized returns, but currency is a zero-sum game as you can’t expect to generate a higher return than someone who’s based in that currency just because you’re based in a different one. Hedging forex risk is particularly

With the rise of political and currency volatility, the arbitrage opportunity that secondaries buyers have taken advantage of in recent years has the potential to go in reverse. “Transactions are being underwritten today at higher underlying multiples and with more leverage – but things could quite quickly turn tomorrow and that’s where some could face a double whammy,” McDonald says.

Currency hedging tools allow secondaries funds to lessen the impact of wild forex swings. PEI asked the 10 largest secondaries firms what forms of hedging they employ. All but two declined to comment on record. HarbourVest Partners says it uses various tools to mitigate forex risk that are highly tailored to specific investments, whereas LGT Capital Partners says it models currency fluctuations at entry and prices a given deal accordingly without using hedging products.

Glendower Capital, a London-headquartered secondaries firm, says around half of its dollar-denominated portfolio is exposed to other currencies. As such, the firm uses a systematic programme of NAV-based currency hedges in the form of forward contracts which are adjusted every quarter. For
A tale of two markets

Not all secondaries strategies deliver the same returns. Buyers engaged in the plain vanilla part of the market typically underwrite to a 1.5x and mid-teens internal rate of return. French giant Ardian, the market’s biggest buyer, is targeting a net multiple of 1.6x and a net IRR of 16 percent for its latest ASF VIII fund, according to University of Houston System’s board of regents meeting last year.

Firms focusing on GP-led processes, on the other hand, typically target 1.8-2x returns and close to a 20 percent IRR. The two markets mean investors looking to commit to secondaries funds should be aware of a manager’s skillset.

There are significant risks taken by any buyer that approaches plain vanilla and GP-led secondaries with the same investment teams, due diligence process and underwriting criteria, as the profile of these types of transactions couldn’t be further apart, says Ricardo Lombardi, managing director at ICG Strategic Equity.

“Most secondaries firms now want to do GP-led deals as a natural evolution to their business model, but as the secondary market grows in complexity, our view is that specialisation will become a key competitive advantage, I would even say a necessity.”

As the types of deals secondaries funds invest in continue to proliferate and managers are tempted to jump on the latest trend bandwagon, GP-LP alignment will become even more important. LPs aren’t in the dark about this: in January, Oregon Public Employees Retirement Fund warned the “aggressive” behaviour of some secondaries market participants was leading to a breakdown in GP-LP alignment. It noted it was increasingly seeing innovative but complex and conflict-riddled transaction proposals and that while such developments have a place in a maturing private equity industry, “the aggressive pace of innovation may suggest that secondary buyers have more appetite for deals than the current market can satisfy”.

Alaska Permanent Fund Corporation is one investor that has taken a drastic measure. In June, head of alternative investments Stephen Moseley told PEI the US sovereign wealth fund would never back a traditional secondaries fund, nor is it a keen buyer of fund stakes.

Is the price really right?

Secondaries deals can live or die on pricing. In recent years a healthy equilibrium in the expectations of buyers and sellers has helped propel transaction volumes.

Kathryn Regan, a partner at Landmark Partners, says she expected market volatility at the end of last year to soften volumes as pricing was expected to come down. Instead, volume surged despite the equity sell-down as public markets rebounded and average pricing for LP interests softened only modestly.

The market appears on track for another record year. Greenhill estimates $42 billion traded in the first half of the year and is expecting volume to exceed $90 billion for the full year. Nearly two-thirds of funds that online fund stakes marketplace Palico analysed in a July report were trading hands at par to NAV or higher.

Yet, execution risk remains a threat, particularly with more complex deals. According to estimates by Lazard, $4 billion of complex secondaries deals failed last year, a figure likely to rise for 2019. LPs appear to be less keen on cashing out in GP-led secondaries deals: last year 81 percent of LPs sold in asset-level secondaries processes such as fund restructurings; in the first half of this year that figure dropped to 68 percent, according to advisor Evercore.

“A strong market has encouraged more transactions to come to market that may not always have the sufficient industrial rationale, plus the higher volume has made deal selection for secondaries buyers more difficult,” says Joohanna Lottmann, a former director at Lazard who is moving to Park Hill’s secondary advisory group.

Overall dealflow appears to be at record levels. Hamilton Lane, which invests via its own secondaries funds and advises clients on secondaries via separately managed accounts, saw $80 billion in opportunities in the first half of the year, according to managing director Richard Hope.

Still, buyers should exercise caution as the proportion of high quality dealflow has not increased at the same rate, a managing director at a bank that invests in secondaries tells us.

At this point in the macroeconomic cycle, buyers are “looking for deals with managers that have proved they are able to navigate challenging economic situations”, says Yaron Zafir, head of secondaries at advisory firm Rede Partners.

This widening mismatch in expectations won’t necessarily thwart the GP-led market; thoughtful structuring can help bring buyers and sellers together — for example, by using deferred payment mechanisms or injecting preferred equity into parts of the portfolio.

“Sometimes LPs see that average pricing in the market is par or a slight premium [to NAV] so assume it should apply in a uniform manner across all transactions. In reality, it’s just an average with a wide variance,” Zafir says. Pricing depends on the underlying portfolio and the underlying valuations, he adds.

Risks in concentration

Being highly exposed to a limited number of assets can bring unnecessary risk. Nowhere is this more acute than in single-asset fund
restructurings which bring exposure to a single company in a particular sector and market. How can secondaries funds maintain diversification in a market defined by increasingly concentrated deals?

For David Atterbury, managing director at HarbourVest, any single asset could only make up a “tiny” percentage of one of its Dover Street secondaries funds. A high-concentration deal would have to demonstrate characteristics typical of a secondaries deal: a path to early cashflow and a relatively short holding period. The firm also favours deals structured with some form of downside protection, such as a preferred equity component, to reduce risk.

“We’ve questioned the asset profile of some of these transactions that have come across our desk with five-year holds,” he says.

Switzerland-based Partners Group focuses mainly on portfolios of LP stakes, only considering GP-led deals with managers it knows well. It strictly limits its per-company exposure to the low single digits and while it doesn’t rule out highly concentrated deals, it wouldn’t lead but take a small slice as a member of a syndicate.

According to managing director Benno Lüchinger, the firm’s peers with larger risk appetites are generally taking a responsible approach to concentration risk. The increasing prevalence of syndicates on large, concentrated GP-led deals is testament to this. In 2016, 100 percent of the deals advisor Lazard worked on had either one or two backers; in 2018, this figure fell to 25 percent. If an LP finds itself overexposed to similar assets through more than one secondaries fund, it can diversify its holdings by investing in another secondaries fund with a differentiated strategy.

Neither HarbourVest nor LGT have minimum asset limits in the LPAs of their secondaries funds, spokesmen for the firms confirmed to PEI. In LGT’s case, the firm avoids concentration by making as many as 80 deals from its flagship funds and no single company can account for more than 15 percent of the fund’s value, according to André Aubert, the firm’s head of private equity secondaries.

None of the limited partners PEI spoke to for this article said they systematically consider the concentration risk of their secondaries portfolios. For LPs that do want to know more, there are some considerations, says Holger Rossbach, senior investment director at Cambridge Associates.

“Would you only do buyout? Would you consider venture? Would you put these deals directly into the fund vehicle or leverage them up? Does the performance come from appreciation of the assets or from buying at a discount? What role does leverage play at fund level?” he says. “There is a

“As the secondary market grows in complexity, our view is that specialisation will become a key competitive advantage, I would even say a necessity”

RICARDO LOMBARDI
ICG Strategic Equity

Despite $42bn of deal volume in H1, secondaries dry powder remains near record levels

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity dry powder</th>
<th>Near-term fundraising</th>
<th>Estimated available leverage</th>
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<tr>
<td>H119</td>
<td>80</td>
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Source: Greenhill
Risk avoidance and allocation in secondaries transactions

Ropes & Gray’s Raj Marphatia and Jianing Zhang talk through a case study

The avoidance and allocation of risk is critical in secondaries transactions. One risk allocation area is whether the buyer is required to withhold tax on the proceeds payable to the seller. This note briefly describes an actual transaction that almost collapsed because the parties could not agree on how to allocate tax withholding risk between the buyer and the seller. The deal was a classic secondaries transaction in which the seller was selling a fund portfolio (including an India-focused fund) to a sovereign wealth fund.

An Indian statute requires the buyer to withhold tax on the indirect sale of an interest in an Indian company. It is not clear whether this statute applies to the secondary sale of an interest in a direct fund that focuses on investments in Indian companies.

Applying this statute to such a sale does not make sense from a policy or practical perspective. From a policy perspective, the tax should be imposed at the level of the direct fund, and not at the level of the owners of the direct fund. From a practical perspective, the owner of the interest in the direct fund would not have the information necessary to calculate the gain on this indirect sale, nor is it clear how the tax it paid could be credited against the tax payable when the underlying direct fund sold its interest in the Indian company.

Both the buyer and the seller agreed that it was unlikely that the statute applied to the proposed transaction. The seller offered to indemnify the buyer if the tax authorities held the buyer responsible for a failure to withhold.

However, the buyer was unwilling to accept this allocation of risk because as a SWF it felt obligated to comply with the literal language of the Indian statute. It proposed to withhold tax and remit it to the government and recommended that the seller seek a refund because the statute should not apply to the proposed transaction. This approach was unacceptable to the seller.

It appeared as if the deal was going to collapse over this issue. Before abandoning the transaction, however, the seller determined that there was in fact no gain on the sale and therefore no tax withholding was required. The buyer and its advisors concurred and agreed to proceed without tax withholding.

The parties to this transaction were fortunately able to resolve the risk allocation issue, but this case study is a reminder of the importance of identifying and allocating risk as early as possible in a secondary transaction.
ale behind individual applications of leverage both at the deal or fund level, each loan or credit line is part of a complex network with a portfolio company at its centre. How these components interact with each other, particularly during an economic downturn, remains untested.

Kishore Kansal, managing partner of intermediary PEFOX, gives the following example: an investee company’s earnings lower such that it is unable to meet its debt repayments. This impacts the company’s direct lenders and reduces the value of the unrealised equity. This then hits the likely cash flowing to a secondaries buyer, which may have employed leverage itself in the deal on the basis of anticipated future distributions.

A portfolio company can be impacted by as many as five layers of leverage. The company itself will have been acquired using leverage by a buyout fund, which in turn employs a capital call facility. A secondaries fund might employ fund-level leverage, additional transaction-based leverage and have its own LP credit facility. The result is a complex picture of intertwined leverage lines and as yet untested risk factors.

Cambridge Associates’ Rossbach says several banks offer such triple-layer leverage products as a “one-stop solution”, something secondaries funds have been taking advantage of over the last three years.

“Given the high price environment we’re in, it’s something an investor needs to be aware of,” he warns.

Rising tide
The growth of the secondaries market appears to be unstoppable. As of March, 87 percent of secondaries buyers reported their deal pipelines were as strong or stronger than the year before, according to data from UBS. There is clearly room for more growth.

LP appetite for the strategy does not appear to be slowing down either. While capital raised in final closes during the first half of the year booked a 72 percent year-on-year drop to $5.3 billion, according to PEI data, a flurry of mega-fund closes are just around the corner. As of late July the top 10 secondaries funds in market were seeking a combined $63.85 billion, a figure almost 30 percent larger than the figure being sought by the top 10 private debt funds – a strategy often compared with secondaries because of its recent growth.

Faced with a plethora of choices and dynamics that remain untested in the event of a market correction, investors looking for secondaries exposure will do well to exercise caution in manager selection.

“Risk is out there on every deal, be it a buyout or a secondaries deal, and you need to consider how you mitigate those risks,” says Richard Hope, a managing director at Hamilton Lane. LPs are sophisticated when it comes to investing in secondaries funds but extra due diligence can never hurt, he adds.

“I would definitely encourage the LP world to make sure they know what they’re buying.” ■

Landmark Partners specializes in secondary market transactions of private equity, real estate and infrastructure investments, with approximately $27 billion of committed capital as of March 31, 2019. Founded in 1989, the firm has one of the longest track records in the industry and is a leading source of liquidity to owners of interests in real estate, real asset, venture, mezzanine and buyout limited partnerships.

Landmark Partners has more than 125 professionals across five offices in Boston, Dallas, London, New York and Simsbury, Connecticut.
Single-asset transactions, a growing part of the secondaries market, can offer unique benefits to all parties, write Evercore’s Nigel Dawn, Francesca Paveri and Dave El Helou

The secondaries market originated to provide liquidity to institutional investors, often distressed or under regulatory pressure, via sales of limited partnership interests. The market has evolved over the years into a well-established marketplace for any type of investor seeking to actively manage their private markets portfolio.

Secondaries market volume reached $72 billion in 2018, up 33 percent from the year prior and up 177 percent from five years ago. While a few years ago $100 billion in annual transaction volume seemed hard to imagine, 2019 volume is expected to fall just short of it. Indeed, the first half of the year already delivered $42 billion – more than the volume reached in the entirety of 2016.

The traditional LP stakes market remains the core of the market, with investors seeking to re-balance their portfolios, focus on core GP relationships and lock in returns by selling older vintage tail-end funds.

However, over the last few years, the GP-led market has grown rapidly and become a significant driver of deal activity. While early GP-led transactions focused on the most challenging situations – the so-called “zombie funds” – recent secondaries market headlines point to well-established, highly regarded managers contemplating or completing strategic secondaries transactions. These transactions have grown in scale and scope, as a broad range of sponsors look for opportunities to generate liquidity in order to achieve a variety of objectives: (i) hold assets for longer; (ii) accelerate the return of capital to investors; or (iii) raise new capital (for the same companies or new investments). This segment of the market has grown from $5.5 billion in 2013 to $18 billion for just the first half of 2019.

The substantial growth in the GP-led market has been accelerated by: (i) stronger acceptance and active engagement by financial sponsors, particularly brand names, to explore GP-led transactions; (ii) investors’ desire to lock-in returns; (iii) the depth of the secondaries market, where secondaries buyers continue to raise substantial amounts of capital and a number of new GP focused specialist buyers are entering the market; and (iv) the creativity of market participants continuously adapting transaction structures to meet the objectives of sponsors, investors, and underlying portfolio companies.

While the secondaries market was originally established to provide “portfolio” solutions, with most buyers requiring a transaction to involve at least three assets, “single-asset” transactions are becoming an established trend.

The rise of single-asset deals
Many sponsors have openly communicated to their investors a desire to hold on to certain assets – beyond the typical term of a fund – where they believe there still exists substantial unrealised value. This trend has led to the emergence of long-duration funds designed to increase flexibility and maximise value. Cross-fund transactions have also been looked to as a solution to retain winners, but do not provide sufficient flexibility for existing investors and raise significant
transparency is critical to ensuring success. Communication with existing investors and with inherent conflicts, early and regular investors, the new secondaries buyer, and the new capital to invest in the business or to pursue M&A. In 2018, single-asset transactions accounted for just under 10 percent of GP-led deals, and all signs point to that percentage continuing to grow.

Single-asset deals are primarily being employed in scenarios where there is an existing remaining asset in a fund (or the remaining portfolio is concentrated in one asset) and such asset requires additional time and potentially capital to maximise value.

A secondaries process could yield an attractive and flexible alternative to provide liquidity to investors versus other exit options the sponsor may have. An IPO exit is very much dependent on the nature of the equity markets, is subject to volatility, and requires additional time for a full exit, given lock-ups and the challenges of selling a large number of shares.

In the case of a sale, particularly to a strategic buyer, a company may not yet be at the point where it has fully executed its business plan and offers from buyers may be impacted by that. A secondaries market solution could reflect the value that the incumbent private equity firm can bring to the table and, together with the potentially lower cost of capital for secondary buyers versus traditional financial sponsors, could result in a higher price.

**Single-asset transactions**

Successful transactions generally have followed similar blueprints. There needs to be a clear, strong rationale for the transaction that creates a “win-win-win” for the existing investors, the new secondaries buyer, and the GP. Moreover, as these transactions come with inherent conflicts, early and regular communication with existing investors and transparency is critical to ensuring success.

It is also important to provide investors with optionality – (i) the ability to sell at an attractive price; or (ii) the opportunity to “roll-over” and re-invest in the asset. Depending on circumstances, this can be done in a “status-quo” context, ie, with limited changes to existing terms outside of duration. Keeping these in mind are important for a successful outcome for any GP-led transaction.

Single-asset transactions also come with specific challenges. Firstly, often the rationale for a single-asset transaction includes the need for additional capital to reinvest in the business for growth opportunities, to support potential restructuring at the company, or to consolidate ownership in the company. New investors will need to have a clear understanding of how new capital will be used and existing investors will want to have the opportunity to also provide new capital alongside the new secondary investor to avoid potential dilution.

Second, a challenge for some secondaries buyers is the risk profile of single-asset transactions. Unlike a more traditional LP portfolio sale that is highly diversified, the higher concentration increases the risk profile. This can be mitigated by the quality of the asset, particularly when the asset under consideration is performing and perceived as a “trophy” asset. Many buyers have also become more accustomed to underwriting a single asset as a way to increase returns and differentiate their strategy.

Thirdly, single-asset deals are being completed on a larger and larger scale, often above $1 billion. A transaction of such size and concentration can be a challenge for secondary buyers that historically have acquired more diversified portfolios and may have limits to single-company exposure in their funds – typically 1-3 percent of fund size. Syndicated transactions have become common, and we estimate over two-thirds of transactions are being done with three or more investors. Syndicated transactions also allow the opportunity for more traditional, primary-oriented LPs to participate in the secondaries market alongside specialist secondaries buyers.

**Where do we go from here?**

It is still early days in a GP-led secondaries market that is entering an exciting period of high growth. Transaction volume in the broader secondaries market continues to grow at a rapid pace, and we expect overall secondaries market volume in 2019 will again reach record levels, approaching $90 billion-plus. GP-led solutions should continue to be a key growth driver and may soon reach the size of the LP stakes market. Single-asset transactions are likely to remain one of the key engines of growth in the market. Whereas historically sponsors could only exit assets in one of two ways, an IPO or a sale to a strategic or financial buyer, today there is a real third option for exit: the secondaries market.

Through this market, a sponsor can provide existing investors in an older fund with an attractive liquidity option while maintaining control of a strong performing asset, continue to invest in its growth and value creation, and “re-buy” winners. ■

Nigel Dawn is a senior managing director and head of Evercore’s private capital advisory group. He is based in New York

Francesca Paveri is a managing director based in London

Dave El Helou is a vice-president based in New York
This year’s ranking of the industry’s leading professionals under 36 shows women are making their mark with three in our top 10.
1

**Wilfred Small 30**  
Managing director  
Ardian

It's hard to look past Ardian in secondaries. The French giant has topped the SI 30 ranking of the biggest fundraisers every year since launch and is raising the biggest ever pool of capital for the strategy. Of course, Ardian's activity isn't just restricted to Europe and New York. Leading the firm's San Francisco office is 30-year-old Small, who, by all accounts impresses everyone he comes into contact with. Market sources described Small as a "superstar" who punches above his weight. "He is hands down the most impressive young professional in secondaries out there," says an advisor who has worked with him.

2

**Dustin Willard 35**  
Principal  
HarbourVest Partners

We continue to hear fantastic things about this Duke and MIT graduate. Boston-based Willard is understood to lead a ton of HarbourVest's GP-led activity and is "extremely well-known in the market", according to a buyside source at a non-traditional firm. He has played a lead role on several complex deals, including the restructuring and tender offer on The Endowment Fund – an SEC-registered vehicle with more than 13,000 high-net-worth individual investors, and the spin-out of Bank of America Merrill Lynch's Asia private equity team to form NewQuest Capital Partners in 2011.

3

**Clelia Zacharias 33**  
Executive director  
LGT Capital Partners

Switzerland-based LGT is known for its appetite for underwriting complex deals such as spin-outs and single-asset fund restructurings. The firm's New York team is small but packs a punch. A senior member of LGT's US secondaries team, Zacharias has contributed to more than $1 billion-worth of secondaries deals in the US over the past year. The Princeton graduate spent three years at AlpInvest Partners before joining LGT and is on the board of directors of the New York Private Equity Network. "She's super smart and a great person to work with," says a New York-based veteran advisor.

4

**Michael Camacho 36**  
Principal  
Rede Partners

How many secondaries professionals can say they've worked across all three major geographic regions? We can only think of one: Michael Camacho. At 36, Camacho has achieved more than most could dream of achieving in their lifetimes. The Columbia graduate spent a decade at AlpInvest Partners in New York and Amsterdam and was head of Asia secondaries in Hong Kong. Headline deals include the $3 billion spin-out of Unicredit’s principal investment unit in 2014. “He has the nose to scent out problems and the nous to fix them,” says a GP who has worked with him.
“Collaborative”, “bold”, “creative” and “rare talent” are some words Campbell’s peers used to describe him. The Duke graduate helped navigate ICG’s acquisition of Standard Chartered’s private equity assets – an “un-doable” deal in which Campbell saw moves unfold before they happened and knew how shifting one chess piece would affect others, we’re told. He also spearheaded ICG’s effort with Goldman Sachs Asset Management to help close ZZ Capital’s acquisition of energy infrastructure index provider Alerian. Campbell will be a “long-time participant in the secondaries space” with skills that are “well advanced beyond his years”, a source tells us.

Jasmine Hunet has featured in every incarnation of the Young Guns ranking, an impressive run that continues this year with Jasmine Hunet. Described by one advisory source as a “real superstar”, the UBS private funds group alumna led a GP-led restructuring for French firm Fondations Capital (now known as Trail Capital), the sale of a large portfolio of stakes by a UK pension fund and the almost single-handed execution of a highly complex tail-end portfolio sale made up of more than 200 positions. Impressive.

Mirsy is a star in the making, we hear. His direct private equity background – he spent time at Ontario Teachers’ Pension Plan before joining Whitehorse – helps him develop innovative structured liquidity offerings. We are told Mirsky has taken leading roles on some of the preferred equity specialist’s most complex transactions. He was recently promoted to senior principal and his drive and dedication have made him a leader, so say his peers. Fun fact: Mirsky speaks French and was head of student leadership at
Brendan King 32
Principal
Blackstone Strategic Partners

Strategic Partners closed the biggest-ever secondaries fund on $11.1 billion this year. One of the key people helping invest that capital is New York-based King. With more than $5 billion-worth of transactions to his name, the Strategic Partners veteran is understood to be working on one of the marquee secondaries deals of the year. Here’s what one of the best-known lawyers in secondaries had to say about him: “He has impressed me in particular by his successful efforts to understand the motivations of sellers and GPs and come up with creative and compelling solutions.”

Marion Cossin 33
Vice-president
Lazard

Described as discreet, humble and one of the most technical advisors of her age, Cossin’s deal sheet includes the 2017 restructuring of Duke Street’s 2006-vintage fund and the spin-out of Dutch bank ABN AMRO’s private equity unit. A graduate of France’s Science Po, Columbia and Oxford, Cossin moved to Paris last year to build Lazard’s secondaries operations there. A buyer who knows her describes her as “someone you really want to talk to because you know you’re going to learn from her”. One to keep your eye on.

Jordan Hurwitz 33
Senior associate
Proskauer

A grafter, capable deal advisor and natural leader and influencer – that’s how two market participants describe Hurwitz. He joined Proskauer at the end of last year and has already been involved in approximately 25 transactions with an aggregate deal value of more than $9 billion. Headline transactions include advising Ardian on multiple acquisitions and disposals as well as a global asset manager on a GP-led liquidity offering involving six multi-jurisdictional funds of funds. A French and Spanish speaker, Hurwitz also leads associate and client training at the firm and volunteers at a cancer care charity. What’s not to like?

Michael Song 28
Vice-president
Greenhill

Asia has been the location of some milestone secondaries deals in recent years, including Singapore sovereign wealth fund GIC’s sale of a $1.7 billion portfolio. It was dwarfed this year by another Asian seller, Norinchukin Bank, whose sale of a roughly $5 billion portfolio to Ardian pushed the market to new heights. At the heart of deals such as these has been Hong-Kong-based Song, who, despite being the youngest Young Gun in this year’s cohort at 28, has earned the respect of his peers through his diligence and intelligence.
Brittany Hargest 33  
Vice-president  
Greenspring Associates

Nothing screams Young Gun to us more than expanding the market across asset classes. One of the most eye-catching such deals of the last 12 months was Greenspring’s restructuring of Altos Ventures’ 2008-vintage $86.5 million VC fund. The total deal was worth around $450 million including fresh capital. Helping lead this was Baltimore-based Hargest. “She’s fantastic,” says one competitor buyer who has worked with her. “On a relative basis of how young she is versus impact, she’s disproportionately responsible and resourced.” Keep your eye on this one.

Ana Dicu 34  
Senior vice-president  
Campbell Lutyens

Dicu has advised on about $3.5 billion-worth of deals, from feeder fund transactions to complex GP-led processes. One deal under her belt is the 2018 restructuring of Nordic Capital’s €4.3 billion, 2008-vintage fund, a transaction that remains the largest fund restructuring ever to close. Dicu also has a hand in developing Campbell Lutyens’ marketing and origination activities in southern Europe, covering Italy and Spain. With GP-led transactions becoming a larger part of the firm’s activity, expect Dicu’s name to appear in some eye-catching deals to come.

Julie Bernodat 32  
Vice-president  
Landmark Partners

If you’ve had any dealings with Landmark’s European private equity team in the past five years, chances are Julie Bernodat was involved. Based in London, Bernodat forms a critical part of the investment team with a strong focus on complex GP-leds and preferred structure transactions. A former HarbourVest Partners associate, Bernodat has been directly involved in the sourcing and execution of 12 deals at Landmark representing a combined €6 billion. “She’s very on the ball,” says a competitor buyer who has worked with her.

Alec Brown 34  
Director  
HQ Capital

New York-based Brown is one of those rare secondaries professionals who has been on both the buyside and sellside and who has direct investing experience. At just 34, Brown joined the investment arm of the German family office to help lead its secondaries business – one of the youngest people in such a role in the industry. His CV includes a stint at Seven Mile Capital Partners where he was involved in direct investing, as well as advisory work at UBS and secondaries investing at Pantheon.
George Weekes 29
Principal
Morningside Capital Management

Canada’s Morningside might not be the biggest name in secondaries but it has been making waves in the smaller and complex part of the market. A big part of that effort has been due to Weekes, who by all accounts is originating and executing some pretty nifty deals. Buyers at competitor firms respect him and say he’s a “driving force” at the firm. A former Canada Pension Plan Investment Board and Citadel exec, Weekes is described as “meticulous” and “proactive”. Could you ask for more from a 29-year-old?

Alex Shum 34
Director
NewQuest Capital Partners

Hong Kong-based Shum could be considered part of the furniture at NewQuest, having joined from Credit Suisse three months after the firm’s launch in 2011. He has since made over $300 million of investments across multiple complex direct secondaries and fund restructuring transactions, while achieving $700 million of exits and liquidity. Shum was instrumental to NewQuest achieving a PEI Operational Excellence Award in 2016, recognising stellar returns on its investment in China Hydroelectric Corporation.

James Bromley 35
Partner
Weil Gotshal & Manges

Few lawyers can say they’ve worked at secondaries advisory firms, but London-based Bromley can. At 35, the former Rede Partners executive is the only partner-level professional to appear in this year’s list. He blends his placement agent experience with technical legal skills, something that has led him to work on some impressive deals in recent years, particularly in real assets. With over $4 billion in transaction volume including real assets deals and GP-led processes for GMT Communications Partners and an infrastructure portfolio sale for Dutch bank NIBC, keep your eye on Bromley.
As GP-led restructurings continue to increase momentum, Fadi Samman, Daniel Quinn and Aleks Bakic, partners with Akin Gump Strauss Hauer & Feld, consider how market practice is developing in a fast-moving space.

Q: What do you see as the current hot topics in the secondaries market, and where do you see the most activity?

DQ: The hot topic for a while has been GP-led restructurings and innovation in deal structures in the secondaries market in general. That is continuing, and it seems like almost every manager is thinking about GP-led restructurings and how those types of deals might help them – whether it’s a traditional GP-led, a single asset restructuring, a preferred equity investment or something else.

AB: These new deal types are symptomatic of a market that has been evolving to offer stakeholders a range of options catering to whatever outcome they seek to achieve, whether full or partial liquidity, new capital or otherwise.

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Regardless of the stage the fund is at, the assets involved or the buyer engaged, there is a type of transaction that satisfies the demands of all parties.

FS: In the US, the market is maturing, so we are seeing more creativity and the evolution of the next generation of GP-leds.

We see managers looking at restructuring groups of funds in a cohesive way, or even combining them. That brings a new level of complexity.

We are seeing GP-led deals expanding into new asset classes, having initially been principally private equity and venture capital, to now include real estate, energy and credit.

Q: What effect has the ILPA guidance on GP-led deals had on market practice, if any?

FS: It’s too early to say what the effect of the Institutional Limited Partners Association guidance will be but it was a good reflection of sound market practice for GP-led deals.

We don’t anticipate a negative effect, and in fact the guidelines may help educate the LP market by providing a roadmap on how to approach them. They will likely prove particularly helpful for LPs that serve on advisory committees who end up in a potentially difficult role on these deals and may feel more comfortable with the additional guidance.

There is also an expansion of deals into emerging markets, where there is less liquidity and so exits have traditionally taken longer.
AB: In some way, the ILPA guidance is a codification of best practice and what many sponsors were doing already. The guidelines are not intended to be a rulebook. Instead, they provide a helpful roadmap for everyone involved, without binding them to a one-size-fits-all approach.

Q How do the LPs that you deal with feel about GP-led deals? What are their perceptions and principal areas of focus?
AB: When we first started seeing some of the newer structures in the market, a lot of LPs welcomed those as a new way of resolving the liquidity gap, but there was also a bit of scepticism and hesitation. This was probably due to a lack of familiarity with such deal types and the complexity and conflict issues involved, often exacerbated by limited timeframes within which decisions have to be made by LPs.

Our experience is that as these deals have become more common, all the major LPs have now gone through at least one and sometimes quite a few in their portfolios, and they have come to understand them.

As long as the deal is right, there is solid business rationale and it is run properly and in a transparent manner, most LPs are comfortable and some have even started alerting their GPs where they see potential for these deals within existing portfolios.

FS: Not all LPs in any given fund are situated equally, so you may have larger LPs that have the resources to dedicate to a transaction and then a whole host of others for whom this represents one of hundreds of investments and a small proportion of their portfolio.

The complexity and time required to evaluate a transaction is a challenge. On the flipside, deal certainty and execution are important and GPs can’t give LPs months to conduct their review.

That’s a balancing act the market hasn’t quite resolved yet, which explains why some LPs still struggle with these deals.

Q What do you consider to be the features of a successful GP-led transaction? Can you point to any must-haves or keys to success?
DQ: The starting point has to be making sure there is a really good rationale for doing the deal. Do you have an asset that needs three or four more years than you anticipated when you made the investment? How close are you to the end of the fund life? Have you considered all the alternatives, and why you aren’t just doing a fund extension? Making sure the story of the transaction is compelling is the most important thing.

Then, investors need to feel like they’ve had enough time, and information, to make a properly informed choice. Finally, you need to make sure the deal works for everyone, whether they choose to sell or stay in – a good GP-led restructuring shouldn’t feel like a zero sum game.

FS: Selecting advisors who are experienced in these deals and understand the market is critical, including the lawyers. Ensuring that the team surrounding the sponsor really knows the variety of issues that can arise in a transaction is a key to success. These deals are more rife with conflicts than traditional M&A, so the robustness of the process is much more important than it would otherwise be.

Q What are the big legal issues in the secondaries market that your clients are focused on?
AB: The issue of conflicts of interest in secondaries, not just GP-led restructurings but also in stapled deals and even simple LP transfers, has been on lawyers’ minds for some time and is something regulators are quite focused on.

The other thing is the position of the LP Advisory Committee on GP-leds, which can be under a lot of pressure making decisions affecting the entire investor community.

FS: The increase of tail-end funds of funds as sellers is continuing, creating an issue around the allocation of ongoing liabilities for buyers.

That has influenced the market on the allocation of liabilities between buyers and sellers more generally. Also the universe of warranty and indemnity insurers now willing to cover these deals and understand the transactions is growing.

Q Where do you see the secondaries market in two years’ time, from a legal perspective? How do you think market terms and practice will move?
DQ: I think there will be some consolidation of practice on the more traditional GP-led deals and terms will begin to standardise.

At the same time, the universe of what people consider to be a “secondary transaction” will continue to expand, and there’s no sign of innovation in the market slowing down.

AB: What is potentially interesting is what happens in the event of a downturn. In that scenario, we might see participants revisiting past deals with greater scrutiny, whether they were sellers or not, while regulators’ focus on them may be amplified as well.

FS: I would add that we are going to see increased competition in the secondaries space, plus more LP assertiveness over GP-led deals, as they get more familiar and educated on them and start to plant their own flags on best practice.