

PE Secondary Investments – Opportunities and Challenges

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The purchase / sale of assets in secondary markets is increasing gradually, thereby becoming important sources of cash flow in a growing private equity (PE) market. In the past, PE firms were secretive about restructuring, given the allusion to failure of managers. This trend is changing slowly – more focused secondary and institutional funds are willing to buy limited partners' fund interests and the underlying portfolios. This is further propelled by large funds' and fund of funds' using restructuring to improve liquidity and returns. Thus, the secondary market is bringing much needed and critically important liquidity for limited partners.

The growth in secondary transactions has been steep; these transactions continue to rise and are a major contributor to the PE industry. From being a private classified market to evolving as a major liquidity provider to limited and general partners, the market has evolved significantly. USD28.2bn of capital raised through secondary in 2Q16 bears testimony to the growth in this segment in the PE sphere.

Private Equity Secondary Investments – Opportunities and Challenges

Overall transactions in the secondary market, including raising funds and executing deals, are complex and time consuming. Gauging exact volumes traded in the market, real participants, deal information, etc. is becoming more multifaceted. It requires a deep understanding of transaction structures and their characteristics, as well as post deal analysis. Given short time frames for due-diligence, portfolio managers are struggling to find a solution to accurately value the underlying assets.

The growth in the unrealized portfolio of maturing PE funds provides an opportunity to secondary buyers. Fund managers are neither able to exit investments nor distribute the proceeds from maturing funds to their limited partners; the secondary market provides an exit route. The ability to place money more speedily than primary funds, which take years to invest, is a major driver of this growth. Changing economic scenarios, investor conditions, early need for liquidity, and regulatory laws will also fuel secondary deals in the next few years.

Large efforts and resources, as well as complex distribution models, are required to value a deal. This puts pressure on the investment team, as it leaves limited buffer for deal execution. Acuity Knowledge Partners can help ease some of the pressure and share the load of the investment team.

Our PE specialists provide cost-effective one-stop solutions to secondary players to help them derive the right transaction value, build complex distribution models, draft investment memorandums, locate buyers and sellers, analyze the latest fundraising activities, and explore previous secondary market transactions.

About Acuity Knowledge Partners

Acuity Knowledge Partners is a leading provider of high-value research, analytics and business intelligence to the financial services sector. The company supports over 350+ financial institutions and consulting companies through a team of over 3,000+ subject matter experts who work as an extension of the clients' teams based out of various global delivery centres.

We empower our clients to drive revenues higher. We innovate using our proprietary technology and automation solutions. We enable our clients to transform their operating model and cost base.