THE PRIVATE EQUITY SECONDARIES MARKET
A complete guide to its structure, operation and performance

Edited by Campbell Lutyens
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In many ways the evolution of the private equity secondary market parallels the development of secondary liquidity of other asset classes. Over 300 years ago one of the first rudimentary financial secondary markets started when shares and commodities were traded in the coffee houses of London. This early trading developed until, in 1761, a group of 150 brokers formed a club to buy and sell shares which later adopted the name “The Stock Exchange” and became what is now one of the largest and most sophisticated secondary markets in the world.

Other asset classes including commodities, property, debt and financial derivatives such as swaps started initially as primary markets only and, as they matured, a secondary market developed alongside them; the secondary markets emerged to give initial investors or lenders liquidity without the requirement to liquidate the underlying assets. They also serve to generate market pricing and facilitate further fundraising. The size of these markets has been driven by the size and maturity of the respective primary markets, the characteristics of the underlying assets or financial instruments as well as the nature of the investors or lenders.

The growth of the private equity secondary market has been driven in large part by the dynamic growth of the primary market over the last ten years and, while still termed an alternative asset class, has become a very well established and significant component of institutional portfolios. With this growth in size and maturity, the range of investors participating has also increased materially to now cover most types of investors across the world’s principal financial centres. There has also been a growing sophistication in the way that investors participate in the market which is by its nature a longer term and illiquid asset class.

As a consequence, the secondary market for private equity assets has seen explosive growth, albeit trailing primary market growth in private equity by a few years. The number of participants has grown from a small number of pioneering secondary funds and transactions in the mid-nineties to today’s market an estimated $15 billion to $20 billion worth of transactions per year. Notwithstanding this, the market still remains relatively immature by comparison with other secondary markets and still represents a very small percentage of the primary market and is therefore likely to see further significant growth.

RECENT DEVELOPMENTS

Even since the publication of this book’s predecessor *Routes to Liquidity* in 2004, the private equity secondary market has continued to experience very significant growth in terms of overall volume, number of participants, complexity, range of transactions and geographical activity. Capital raised for secondary transactions is estimated to have reached $15 billion in 2007, well over double the $6.4 billion raised during 2004. The rise is in part due to the direct participation in the market of institutional investors as well as the more recent infusion of non-traditional participants such as hedge funds, family offices and structured vehicles.

The entrance of new players has led to increased specialisation with buyers looking to find niches based around asset focus, maturity, geography or role in capital structure. As well as the significant increase in availability of capital to acquire secondary private equity assets, there has also been a major introduction of new players looking to find niches around asset focus, maturity, geography or role in capital structure.
development in the sophistication of players driven by competition and a broadening of the experience base of the market.

Deeper liquidity levels in the market arising from larger pools of capital run by existing secondary players has, together with new entrants to the sector, led to a more competitive environment and therefore better pricing. In addition, return expectations of buyers have declined in line with the overall reduction in investment returns and have also declined on a relative basis compared with primary private equity as a better understanding has been achieved of the comparative risk characteristics.

Pricing in the secondary market now more closely reflects fair value which has stimulated new levels of interest from potential vendors. Many institutions were historically put off from seeking early liquidity due to the perception that they would only be able to sell at significant discounts. Now that the penalty cost of gaining early liquidity has largely evaporated, institutions can for the first time consider using the secondary market for active portfolio management.

The historic ‘Fire-and-Forget’ strategy – where a commitment is made to a private equity fund with no further investment decisions coming due for ten to twelve years – is no longer the only way forward. While, clearly, private equity is by its nature a long term investment, it seems unrealistic to assume that circumstances do not change over a ten to twelve year period; change will likely occur in the outlook for the economy, geographic opportunities, growth prospects of different sectors and, as has recently been seen, in the leverage market.

In addition, the assessment of a particular manager may change as may an institution’s view of the manager’s ability, team members may leave or the team may prove to be less competent than expected. Circumstances may change for institutions as well. For example, their assets under management may change substantially, or there be a change in strategy or targeted risk profile.

Through secondary market liquidity and enhanced pricing, institutional investors can now rebalance their portfolios by absolute exposure or geographic or sector exposure, or by vintage year or manager exposure, or just as a housekeeping exercise. The secondary markets can be used by investors to do this rebalancing, thereby improving overall portfolio returns and risk characteristics.

Secondary markets have developed in a similar way for transactions involving portfolios of direct private equity assets. While, historically, this has typically involved institutions exiting the asset class, we have more recently seen the development of a number of new trends. The most notable has been what is often referred to as a ‘stapled transaction’. Such deals link the raising of new capital to a secondary transaction. A more recent development has seen corporates’ use of the market to simultaneously dispose of multiple, sometimes unrelated, subsidiaries. Some private equity funds themselves have come to see more and more the merit of actively managing the tail-end of their portfolios through secondary markets sales. This more active management allows managers to return capital to their investors and wind up older funds. It also frees the manager to focus on new investments and, often, on the larger portfolio companies that have a greater impact on returns. Pricing in the secondary market has made all these realistic alternatives to selling companies or investments on a deal by deal basis.

Exit valuations can be potentially enhanced by grouping a number of smaller exposures to create a larger transaction which can attract more competition and better pricing. In addition considering a number of companies in a single transaction diversifies and therefore decreases risk which arguably should increase valuations.
Transaction structure

Another important consideration when evaluating portfolio rebalancing options is the structure of a potential transaction. The structure of any particular transaction is completely dependent upon the objectives that a portfolio manager has in pursuing the transaction. For example, a portfolio manager may want to reduce its private equity exposure while optimising price in a sale. However, this institution may not be as concerned about when it receives sales proceeds. As such, the portfolio manager may offer to receive deferred payments in order to reach a higher purchase price. In another scenario, the portfolio manager may want to reduce their overall private equity exposure but want to maintain relationships with the GPs. As such, the portfolio manager may offer to sell a “strip” of their entire portfolio, for example selling a 25 percent interest in a basket of fund interests, thereby maintaining relationships and sub-class weightings, but reducing exposure overall. Alternatively, a portfolio manager may want to sell down their portfolio but is concerned about the headline risk of a subsequent large winner in the portfolio that they did not know about. The transaction could be structured such that the buyer shares a portion of all proceeds after it has received back two times its invested capital. There are many ways a transaction can be structured to meet individual institutional objectives beyond a straight sale of assets.

Transaction process

As important as the transaction structure is the transaction process. Portfolio managers often have specific needs or objectives when it comes to designing the right process. Some portfolio managers are severely short-staffed and need to completely outsource the transaction process to an intermediary. Other portfolio managers may be quite familiar with the secondary market and their own portfolio, so comfortable inviting a tight group of pre-qualified bidders. Some portfolio managers may need to document for specific internal purposes that they ran a wide auction; others want to balance resources allocated to the sales process with very small incremental gains in purchase price or terms. Some portfolio managers may be highly concerned with confidentiality while others are most concerned about their reputation with the GPs of the funds sold. There is not a correct or incorrect process; it depends upon the facts and circumstances of the situation.

Specifically on the subject of auctions, the advantage of a large auction process is that in theory an auction is more competitive and should therefore produce the highest possible bid. However, the disadvantages of an auction are often a long drawn-out and unwieldy process with a large number of “thrown-in” bids and a complete loss of confidentiality. Furthermore, a carefully selected group of buyers can achieve the same pricing result with less effort and a more discreet process. Large auction processes may actually discourage the buyers most qualified to bid on assets due to low probability of closure in relation to the resources required to bid aggressively.

GP relationship management

The management of the GP relationship is crucial during a secondary sale since the LP is very dependent on the goodwill of the GP in order to achieve the best outcome. The GP needs to give consent to most transfers and they have learned to use the secondary sale process as an opportunity to manage and improve their investor base. Working with the GPs to identify the best suited buyers for the assets is an important part of an effective secondary sale process, preserving the relationship with the GPs and achieving a better price.

Additionally, the cooperation of the GPs during the sale process is crucial for the prospective buyers to obtain the best available information on a given portfolio. In general, private company information is sparse and therefore, secondary buyers rely heavily on the information provided by the GPs. It is fair to assume that the more transparent the information, the better the price for the secondary transaction as buyers are not pricing in additional uncertainty.

Furthermore, the private equity industry is still restrictive in its access to the best funds. Selling an interest in a private equity fund may mean that the LP loses access to future funds by that GP. Therefore,
Chapter 5

Alternative routes to liquidity: securitising private equity

By Filip Henzler, Capital Dynamics

INTRODUCTION
Applying securitisation techniques to private equity has opened up a range of new and valuable liquidity and financing alternatives to investors in the asset class. With the success of the recent private equity securitisations, involved parties have gained experience and third party investors have increased appetite for these kinds of transactions, making the terms for securitising highly attractive. However, the advantages and practices of securitising private equity are still unfamiliar to a wide range of traditional private equity market participants. This article attempts to give an overview and some background on this emerging financing option.

Background to the securitisation market
Securitisation is a financing process in which a portfolio of financial assets is moved to a special purpose vehicle and refinanced through the issuance of various classes of notes. The history of securitising assets started in the 1970s in the US mortgage markets, as means to increase funding capacity to meet the rising demand for housing credits. Since then securitising assets has become a standardised commodity, with new yearly issuances of several trillion dollars per year. Asset classes where the benefits of securitisation techniques are commonly employed include mortgages, various forms of both performing and non-performing debts and loans, auto and aircraft leases, as well as credit card receivables. However, assets as esoteric as champagne stock, music royalties, film libraries and future soccer spectator proceeds have also been securitised.

A significant advantage of securitisations is that they bring together a pool of financial assets that otherwise could not be easily traded in their existing form. By pooling together a large portfolio of these in isolation illiquid assets, they can be converted into instruments that may be offered and sold freely in the capital markets, thus allowing the owner of the assets to free up cash, to lower the cost of financing, improve future liquidity opportunities and increase investment capacity. Securitisations are also used to achieve regulatory relief and off-balance sheet financing.

Given the very specific characteristics of the private equity market, and especially due to the volatile nature of the cash flow streams of private equity partnership investments, private equity was long perceived as an asset class that could not be securitised. While it is indeed challenging and complex, a number of attractive private equity securitisations have been closed over recent years, demonstrating not only the feasibility of such transactions, but also the great benefits that can be achieved.

Examples of private equity securitisations
The following examples illustrate how securitisation techniques can be applied to different situations and achieve various objectives. The flexibility of this financing method can of course also be useful in other situations and to achieve other goals, as described further below in this article.

Astrea is a securitisation of a diversified portfolio of limited partnership interests in 46 different private equity funds with a total exposure (reported value plus open commitments) of $810 million that closed in 2006. As a consideration the owner of the portfolio received cash on a non-recourse basis equalling approximately the portfolio’s reported value and about half of the junior securities issued. The senior debt was structured into two classes of notes that were rated AAA and AA respectively and sold to cap-

Asset classes where the benefits of securitisation techniques are commonly employed include mortgages, various forms of both performing and non-performing debts and loans, auto and aircraft leases, as well as credit card receivables.
ital market investors. A novelty with this transaction was the cash efficiency of the structure as well as half of the junior securities being sold to third parties. The rationale of the owner, an experienced institutional investor with several billion US dollars in historic private equity commitments, was to free up cash to increase its investment capacity and to more efficiently finance its private equity holdings to maximise its return on investment.

Pine Street is a securitisation of a diversified portfolio of interests in 64 different private equity funds with a total exposure of $1.0 billion that closed in 2002. Similar to Astrea, the rationale of the owner was to free up cash for new investment opportunities and to reduce the cost of financing. Six classes of notes with various levels of seniority were issued, but only the most senior Class A notes with a principal amount of $250 million and an AAA rating were sold to third parties. As a consideration the sellers of the portfolio received cash on a non-recourse basis equalling approximately 40 percent of the reported value of the portfolio and all junior securities (Class B through F notes) to retain the upside potential of the portfolio. It was the first time an AAA rating was achieved for notes backed by private equity.

While Pine Street and Astrea are examples of refinancings of fixed, pre-defined portfolios (such transactions are called portfolio securitisations or closed-pool securitisations), securitisations have also been undertaken where the issuance proceeds are partly or completely used to purchase unidentified assets post closing. Such transactions are called managed securitisations or blind-pool securitisations.

Examples of such managed securitisations are the three Diamond transactions with closings in 2004, 2006, and 2007, the Tenzing CFO with a closing in 2004, as well as Prime Edge Capital with a closing in 2001. In these cases the portfolio that was securitised consisted of only partly existing investments, along with investment capacity reserved for new investments and reinvestments to be determined after closing. These transactions thus require larger liquidity reserves, and the investors have to take into account the additional risk that no good investment opportunities will arise in the future. The reason for these transactions is primarily to optimise return on invested capital for the equity investors and to increase investment capacity.

A number of non-public loan financings of private equity portfolios have also been undertaken, structured similar to a securitisation but with a single bank as the lender. The advantage of using a bank loan instead of issuing securities is that it may enable you to negotiate more elaborate terms to fit certain portfolio anomalies and that it is feasible for smaller transaction sizes as well.

Differentiating securitisation from secondary sales and structured sales

Private equity securitisations are often compared to secondary sales. While it is true that a securitisation is an attractive alternative to a secondary sale, a securitisation is more flexible and is mainly undertaken in situations where the owner wants to generate an early cash payment, but does not want to exit from its private equity investments as it believes in the future profit potential of the assets.

If the objective is to generate early liquidity, a securitisation can help the owner achieve an initial, non-recourse cash payment of up to an amount equalling approximately the reported NAV of the portfolio and at the same time participate in the future up-side potential of the portfolio through the retention of the junior securities.

Further, it is important to differentiate between a securitisation and a structured sale. A structured sale is basically a secondary sale with additional conditions, such as seller financing, deferred purchase price payments, splitting of future distributions and/or draw-downs, earn out clauses, etc. It is possible to structure these conditions to accomplish similar benefits to a securitisation. Securitisations are not suitable for small portfolios with insufficient diversification and a structured sale is the only functional alternative.
INTRODUCTION

In the past few years, the primary and secondary private equity markets have started to converge through “stapled” transactions. In a stapled transaction, an investor: (i) acquires an interest in an existing fund in combination with (ii) a blind-pool commitment to a fund managed by the same general partner (GP) that is aimed at making new investments. Alternatively, in a spin-out situation the stapled transaction can comprise the combination of a secondary acquisition of a pool of direct private equity assets, in combination with a commitment to fund new investments.

In a stapled transaction, both the secondary acquisition and the primary commitment are part of one transaction and most often the secondary sale and the new commitment are completed at the same time. Through a stapled transaction the secondary investor becomes a limited partner (LP) in an existing pool of assets (Fund I) as well as an investor in a new fund (Fund II). Stapled transactions are often completed shortly before or during the raising of Fund II and can be instigated by either the GP or the existing investor (Old LP) who wants to reduce its exposure to Fund I.

The rise of stapled transaction has its roots in the following developments:

- Generally, GPs have become more active in managing their investor base as they recognise that access to capital and long-term relations with investors are crucial for the continued success of their business.
- Multiple funds have large or even cornerstone LPs who are unwilling or unable to commit to successor funds for strategic or other reasons.
- There continue to be GPs who spin out from their current, captive environments to increase their independence and broaden their investor base, e.g. spin-outs from financial institutions such as banks and family offices.
- GPs look to replace existing LPs, which are unwilling or unable to make new commitments, with new investors who are able to support the GPs business through new commitments.
- Certain GPs face challenges in fundraising, e.g. resulting from a combination of unclear past investment track records or highly unrealised existing investment portfolios.

Recognising these market dynamics, GPs can entice new investors into making a commitment to their new fund (Fund II) by brokering an opportunity to acquire a position in their existing fund (Fund I) and thus results a stapled transaction.

Under-taking a stapled transaction requires a combination of secondary, primary and complex transaction execution skills. The acquirer (New LP) needs to be able to: (i) offer an acceptable price for the Fund I assets; (ii) provide a Fund II commitment which is relevant to the GP and supports further fundraising; (iii) offer the GP the perspective of a long-term relationship (i.e. beyond Fund II if the GP is successful); and (iv) manage and negotiate a complex transaction that comprises a “deal” between three different participants who have different objectives.

The remainder of this article will be dedicated to: (i) how the stapled market has evolved to what it is today; (ii) the conflicting interests and objectives of the three parties involved in a stapled transaction (the GP, the Old LP and the New LP); (iii) how to create a win-win transaction between all three parties involved; (iv) the example of the Lyceum Capital
stapled transaction; and (v) lessons learned from AlpInvest’s involvement in stapled transactions.

MARKET OVERVIEW

The market for stapled transactions has grown in three years to approximately €2 billion in 2006. We estimate that this constitutes approximately 20 percent of the total secondary market in 2006, as measured by transaction volume. Stapled transactions have been completed in the buyout, venture capital and mezzanine segments of the market, and have been executed in Europe, the US and Asia. Specifically in 2006, stapled transactions have seen a phenomenal growth and we expect this trend to continue.

Stapled transactions can be found in many shapes and forms, but will always contain a secondary element (acquisition of an existing pool of private equity assets, most often a commitment to Fund I) and a primary element (new capital commitment to Fund II). We identify four main types of stapled transactions based on the core motives behind the transaction:

• **Spin-out from captive.** The GP wishes to become independent from the organisation that it is currently exclusively investing for, and the Old LP is willing to seek an exit from a direct private equity investment activity, which it no longer considers as a core business. Generally, a New LP will: (i) acquire (a portion of) the direct private equity assets from the Old LP; (ii) provide the GP with a management company structure (by setting up a new management company or by supporting the buyout of an existing management company) owned by the GP and independent from any LPs; and (iii) make a new commitment to Fund II.

• **Replacement of Old LP.** The GP has identified one or more Old LPs in Fund I, which have indicated that they will not commit to Fund II. In such case, GPs approach New LPs with the opportunity to make a commitment to Fund II, while at the same time offering the ability to acquire exposure in Fund I by acquiring the Old LP’s interests. GPs often use this transaction type to attract investors with both secondary and primary capabilities, but who might not be willing to invest in Fund II on a stand-alone basis. The asset visibility from Fund I, as well as the alignment of economic interest with the GP (the New LPs benefit from value creation in both Fund I and Fund II) make this an attractive transaction for many secondary and primary investors.

• **Replacement of cornerstone LP.** In certain funds, LPs have taken large positions to help the GP raise a first fund, or to allow the Old LP to sell ancillary services to the GP. An example could be an investment bank sponsoring a first time manager, such as in the case of Lyceum Capital (see below). When the objectives of the Old LP change (the investment is no longer strategic), the position in Fund I becomes non-core and a commitment to Fund II will not be pursued. The Old LP looks for a New LP, which is willing to commit long-term to the GP, via at least a commitment to Fund II and the acquisition of the Old LP’s Fund I commitment. This can be in combination with the buyout of the management company and Fund I carried interest, in case the Old LP had an economic interest in either of these.

• **Fundraising-driven stapled.** Some GPs, in exchange for providing consent to a transfer of a LP interest in Fund I, have demanded a commitment to Fund II from New LPs. As such, they are using their right to withhold transfer consent to attract new LPs to Fund II, while such a primary commitment was originally not part of the secondary transaction. Such conduct is perceived as highly controversial, and has been most practiced by GPs who had great difficulties in raising Fund II, holding a pure secondary transaction hostage to a primary commitment.

We have illustrated the difference between a “spin-out from a captive” and a “replacement of an Old LP” in Exhibit 6.1.

Stapled transactions come in different shapes and forms, with the transactions’ ultimate structure guided by which of the different actors’ (GP or Old LP) interests are dominant. Every stapled transaction, however, is dependent on the New LP’s ability and willingness to provide a commitment to Fund II, and preferably (from the GP’s perspective) start a long-term relationship that can result in commit-
The rise and rise of the secondary direct

By David Williamson, Nova Capital Management

INTRODUCTION
Secondary directs are the “new boys on the block” of the secondaries market. Given that this was, until recently, the way in which the whole secondaries market was regarded in the context of the broader private equity industry, it is clear that we are talking about the “niche within the niche”. Or, as practitioners of secondary directs would have it, the cutting edge of the cutting edge.

This chapter addresses that sharp edge that is secondary directs. It attempts to answer these questions about secondary directs:

• What are they?
• Who are the sellers and buyers and why does the market exist?
• What do secondary directs involve and how are they executed?
• What are the key issues that arise?
• What is the future for this market?

Before addressing these questions, however, we need to start with some definitions and also to place secondary directs in the context of the overall secondaries market.

DEFINING OUR SPACE
In new markets and products, terminology can take some time to establish itself. Remember the confusion in the early years of private equity between venture capital, development capital, buyouts, buy-ins (and even BIMBOs) before private equity emerged as the defining term.

Well, secondary directs suffers from the same definition problem. A common term for them three years ago was “synthetic secondaries”. Thankfully, this term has not caught on! The term we will use throughout this chapter, and one that we hope will establish itself for the long run, is secondary directs. We use secondary directs to describe a type of transaction where, typically, there is a transfer of ownership of interests held in a portfolio of private equity companies. The crucial distinction with the main secondaries market is that, in secondary directs, interests transferred are held directly in underlying portfolio companies, whereas in the traditional secondaries market, the interests are generally in limited partnerships which themselves hold interests in the underlying portfolio companies, i.e. secondary indirects!

We believe that this definition accurately describes a typical secondary direct transaction. “Typical” is an important word here however. As we will see later, as this market continues its rapid evolution and innovation, transactions are already occurring which test this definition, particularly in the acquisition of portfolios of subsidiaries from corporate sellers. Direct transactions, of course. But secondary?

The point is that definitions don’t matter, as long as we all know what we mean and what we are talking about. “Secondary directs” it will be, to include these corporate portfolio acquisitions and anything else similar which comes along.

Before moving on, we need to deal with one other point. Anyone reading this who comes from the primary private equity marketplace, would have a completely different perspective and interpretation of secondary transactions. When they “do a secondary”, they mean (most of the time) buying or selling a single private equity backed company where seller and buyer are both private equity
The private equity secondaries market survey

By Ben Pearce, Campbell Lutyens

INTRODUCTION

As discussed extensively within the contributions to this publication, the private equity secondaries market has seen an explosion in growth in recent years. Such growth can be readily quantified using an abundance of widely available statistics. What is not so easily quantified is the corresponding changes in the perceptions of those acting within the market; the results of this survey elucidate the views of an often opaque industry whilst providing invaluable insight into the future movements of a rapidly evolving market.

This survey of industry professionals was compiled through an online questionnaire with 93 participants responding between July and September 2007. Each respondent, depending on the nature of their business, was asked to complete a sell- or a buy-side questionnaire and the ensuing narrative is structured around the responses of these two predominant sets of market participants. The themes addressed are:

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</tbody>
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The breakdown of respondents by organisation type in Exhibit 1 shows two types dominating and together accounting for 49 percent of all respondents: fund-of-funds (31 percent) and pension funds (18 percent). Given that many organisations active in the market potentially act on both the sell- and buy-side, this breakdown does not allow a split to be made between sell- and buy-side respondents. However, as is later revealed, 51 percent of the respondents consider themselves buyers of secondary interests.
Illiquidity is one of the hallmarks of private equity, and it is in part this very lack of liquidity which helps fund managers to generate exceptional returns. Investing in illiquid private companies is a barrier to entry, albeit a relative one. The closed nature of private equity funds supports demand, as investors can only gain access at certain times. And the illiquidity of fund commitments guarantees to managers that the money will be there when they need it, as well as protecting them against having to sell at the wrong time to meet redemptions. But there are times when the lack of liquidity and the corresponding lack of efficiency can work against the interests of investors. This is particularly relevant when funds of funds enter late maturity – their own “tail-end” period. The underlying funds are themselves nearing the end of their contractual lives, the assets in these funds are often “living dead” with limited upside, and the investment teams are focused on new funds, yet reporting requirements do not diminish and investors’ capital is still tied up. The most natural course of action, and that in the best interests of investors, would be to liquidate the assets and return the capital to investors before time and fees reduce their returns, yet fund of funds managers’ ability to do so has traditionally been restricted by the lack of a liquid market.

However, recent developments in the secondary market have changed all of that. The purchase and sale of private equity limited partnership (LP) interests has matured from a niche in the private equity industry to an accepted investment strategy. This development has widened the market, increased the number of buyers and sellers, and inevitably resulted in increased pricing efficiency. No longer forced to sell at a loss, fund of funds managers can now use secondary transactions to accelerate cash flows to investors, to lock in returns, and to manage their portfolios more efficiently.

As an active investor in both the primary and secondary markets, Unigestion decided in late 2005 to review a mature fund of funds that it managed for institutional investors, and to consider the option of selling the remaining portfolio into the secondary market to maximise returns. The 1997 fund of funds was comprised of 17 LP interests and several co-investments that provided exposure to some 150 companies and featured some of the leading buyout funds in Europe and the US (see Exhibit 1).

The key factor in evaluating the sale of the portfolio was that, although the fund would continue to make

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**Exhibit 1: Fund of funds composition**

<table>
<thead>
<tr>
<th>By strategy</th>
<th>By geography</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-invest (2%)</td>
<td>Europe (51%)</td>
</tr>
<tr>
<td>Other (6%)</td>
<td>Rest of world (6%)</td>
</tr>
<tr>
<td>Venture (12%)</td>
<td>US (43%)</td>
</tr>
<tr>
<td>Mid-market buyout (26%)</td>
<td>Large-cap buyout (54%)</td>
</tr>
</tbody>
</table>

Source: Unigestion.
APPENDIX III

The directory*

MANAGERS OF SECONDARY FUNDS

* The directory is a limited extract from Private Equity Connect, PEI Media’s authoritative, live, online database tracking investors in private equity and venture capital funds globally (www.privateequityconnect.com)
Managers of secondary funds

This directory is a limited extract from Private Equity Connect, PEI Media’s authoritative, live, online database tracking investors in private equity and venture capital funds globally (www.privateequityconnect.com)

ADAMS STREET PARTNERS

www.adamsstreetpartners.com

| Assets/funds under management (as of 31/12/2005) | $12.13 billion |
| Allocation to private equity | 100% |
| Year first invested in private equity | 1972 |
| Number of private equity funds committed to | 400+ |

BACKGROUND

Adams Street Partners is an independent private equity fund of funds manager. One of the largest and most established fund of funds managers in the world, Adams Street Partners has been investing in private equity partnerships since 1979. It was formerly the private equity investment division of the financial services firm Brinson Partners.

Adams Street Partners was a pioneer in the development of the private equity secondary market. Secondaries is the second of the three legs of its business, the third being direct investments. It started investing in secondaries in 1986, raising its first dedicated secondary fund in 1988.

PRIVATE EQUITY INVESTMENT ALLOCATION BREAKDOWN

Provides a breakdown in percentage terms of the institution’s allocation to private equity, in terms of geography, fund type and investment opportunities.

| North America | 65% | Western Europe | 20% | Asia Pacific | 15% |

PRIVATE EQUITY INVESTMENT APPETITE

Provides an indication either of the company’s current appetite for different types of private equity investment opportunities, or that the institution has invested in such vehicles/opportunities in the past.

<table>
<thead>
<tr>
<th></th>
<th>North America</th>
<th>Western Europe</th>
<th>Central &amp; Eastern Europe</th>
<th>Middle East/Africa</th>
<th>Asia Pacific</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyout/later stage</td>
<td>●</td>
<td>●</td>
<td></td>
<td></td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Venture</td>
<td>●</td>
<td>●</td>
<td></td>
<td></td>
<td></td>
<td>●</td>
</tr>
<tr>
<td>Mezzanine/subordinated debt</td>
<td>●</td>
<td>●</td>
<td></td>
<td></td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Turnaround</td>
<td>●</td>
<td>●</td>
<td></td>
<td></td>
<td></td>
<td>●</td>
</tr>
</tbody>
</table>
AIG INVESTMENTS

Assets/funds under management (as of 30/09/2008) $744 billion
Allocation to private equity 3.7%
Year first invested in private equity 1980

BACKGROUND
AIG Investments (not to be confused with the Swiss firm AIG Private Equity) is made up of a group of international investment adviser companies, which provide advice, investment products and asset management services to clients around the world. It has a total of 44 offices worldwide.

The group’s activities range across equities, fixed income, hedge funds, private equity and real estate. Its roots in the private equity industry date back to the 1960s, before private equity was recognised as an asset class, when it provided capital and investment advice to family-owned businesses in Asia. It remains very active in south east Asia, and in 1988, expanded its private equity activity there, principally through Hong Kong. By 1994, AIG’s Asia team had strong deal flow in the local markets and thus decided to launch a series of private equity Asia funds of funds.

AIG Investments has executed secondary market transactions totalling $2.6 billion since 2002.

PRIVATE EQUITY INVESTMENT ALLOCATION BREAKDOWN
Provides a breakdown in percentage terms of the company’s regional allocation to private equity.

<table>
<thead>
<tr>
<th>Region</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>50%</td>
</tr>
<tr>
<td>Central &amp; Eastern Europe</td>
<td>2%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>2%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>40%</td>
</tr>
<tr>
<td>Middle East/Africa</td>
<td>2%</td>
</tr>
<tr>
<td>Latin America</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>

PRIVATE EQUITY INVESTMENT APPETITE
Provides an indication either of the company’s current appetite for different types of private equity investment opportunities, or that the institution has invested in such vehicles/opportunities in the past.

<table>
<thead>
<tr>
<th>Category</th>
<th>North America</th>
<th>Western Europe</th>
<th>Central &amp; Eastern Europe</th>
<th>Middle East/Africa</th>
<th>Asia Pacific</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generalist</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buyout/ later stage</td>
<td>●</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venture</td>
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<td>Turnaround</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
About PEI Media

In November 2001, a management team bought out their business from major financial publishing group, Euromoney Institutional Investor PLC. This business was centered on private equity and venture capital, and included the website PrivateEquityOnline.com – already one of the most heavily used private equity news sites around – as well as plans for a major new magazine dedicated to the asset class. That magazine was launched in December 2001 and is called Private Equity International.

Since then, that same group of managers plus a growing team of seasoned journalists and other publishing professionals have been busy developing a range of publications and other media centered on private equity, venture capital and real estate. The company now has offices in London, New York and Singapore and is able to track all aspects of these two key alternative asset classes across all time zones. We are genuinely global in our approach to what are truly global markets.

PEI Media have four magazines, run 20 plus annual conferences globally, publish a library of books, market reports and directories and have a fast-growing online data business.

About Campbell Lutyens

Primary fund placement and secondary transactions

Campbell Lutyens is an independent private equity advisory firm founded in 1988 focused on private equity fund placements and specialist private equity fund and portfolio secondary transactions. The firm has offices in London and New York and comprises a team of 40 international executives, advisors and staff with global and broad-ranging expertise in the private equity sector.

Campbell Lutyens provides specialist advice to institutions, general partners and other organisations on all aspects of the private equity sector, including the sale and restructuring of portfolios of private equity fund interests and portfolios of direct private equity investments. Advisory transaction mandates typically range in size from $30 million to $3 billion. The firm's recent track record includes advising on over $4 billion of private equity secondary transactions and restructurings of private equity assets.

Campbell Lutyens also assists private equity managers in raising funds and advises on all stages and aspects of the fundraising process including strategy, documentation and structuring. The firm acts for European, US and Asian managers raising funds of typically between $200 million and $2 billion from institutional investors globally. It has raised venture capital, development capital, buyout, distressed debt, special situation, mezzanine and infrastructure funds.