



Secondary Sales in PE to Boom in 2009, LP's See Huge Discounts to NAVs

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When the economic downturn is telling on one's existing portfolio, what are the options left with the private equity investors? Either stay with the company and ride the downturn, or sell them to any other buyer and cut your profits (or losses). And this is likely to generate a lot of interest in the private equity secondary market too.

A preqin survey showed that about 43% of private equity investors consider buying funds on secondary market and 10% consider selling. There has been a significant increase in the level of interest and activity in the secondary private equity market of late, says a report compiled by Preqin, a London-based research firm that tracks private equity fund raising globally.

"Over the course of 2009 we predict that the number of secondary sales will increase, with both buyer and seller confidence being buoyed by new fund valuations coming into play which should also help to reduce the gap between NAVs and asking prices," said Tim Friedman, the company spokesperson. About 220 institutional investors were surveyed for the survey.

Buyers galore for secondary market sales

The secondary market is attracting interest from a wide range of different types of LPs – with public pension funds, private pension funds, insurance companies and endowment plans being the most active in that order.

The interest in the secondary market is not only limited to experienced institutional investor. Although 26% of investors that are considering buying hold portfolios of over 100 funds, 28% hold stakes in 10 funds or fewer, said the report.

Many institutional investors are primarily opportunistic in their investments in secondaries, which is understandable given the nature of the market. However, some LPs are interested only in purchasing funds of specific types, geographical foci or vintage years.

The report indicated institutional investors' preference towards buyout funds. LPs feel greater discounts to NAVs available on interests in buyout funds than interests in venture funds. A 30% of LPs have also shown an interest in purchasing stakes in funds of other types. Distressed debt in particular seems to have drawn attention from many investors, and a number of LPs are also looking to buy into mezzanine funds at the present, said the report.

There is an obvious bias towards the markets of America and Europe. A 77% will consider purchasing interests in funds focused on North America and 69% will consider purchasing interests in funds focused on Europe. A 23% of LPs with a regional preference will consider purchasing stakes specifically in funds targeting Asia and the rest of the world.

Secondary market sales to boom this year

Secondary market sales will boom this year, particularly for those investors that utilise secondary sales for more sophisticated portfolio management reasons will return to the market over the course of 2009 as pricing becomes more reasonable, and more investors will come to see the advantages that can be gained from using the market in this way. A total of 9% of institutions with private equity fund holdings are considering selling fund interests on the secondary market within the next two years.

While it is true that large institutional investors are seeking to divest some of their private equity holdings in the secondary market, it is not reflecting a general move to exit the asset class. Many sales in the secondary market are a response to liquidity needs, rather than an overall reduction of target allocations or an exodus from private equity as an asset class. Gaining liquidity was the most popular reason given as to why they would be selling, said the report



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