

---

# As market eases, secondary intermediaries get back to basics

---

By Sabrina Willmer

[After a tough 2009, secondary intermediaries, like secondary buyers, say they are having a busier 2010.](#)

In 2009, the largest single service offered by intermediaries appears to have been advising most would-be sellers to consider hanging onto their fund stakes instead. For the deals that did get done last year, most were so-called plain-vanilla LP interests that were largely unfunded.

“Last year, there were a significant number of unfunded interests selling as investors wanted to cut their commitment size to certain funds,” said Todd Miller, a partner at Cogent Partners.

Intermediaries also worked on structured transactions as a way to help clients find a way around the gap between sellers’ expectations and buyers’ offers. These complex structures enable buyers, for instance, to offer to split capital calls and future returns with sellers rather than buying fund stakes outright. But while a few of these deals got done, their complexities made them difficult to pull off, and with pricing now improving, these structures are no longer in demand.

That’s okay with intermediaries, who say a narrower pricing gap heralds a return to more normal times. Several firms, including Azla Advisors and Probitas Partners, say they recently changed course and started advising clients to prepare for sales.

“A lot of potential sellers [we] advised to hold off in 2009 are now coming back to market,” said David Waxman, a managing director at sell-side firm Azla. He said Azla is seeing limited partners like endowments and financial institutions looking to divest mid-sized and large portfolios ranging in size from \$50 million to \$750 million.

Although intermediaries expect the smaller baskets of interests popular in 2009 to continue trading this year, they are also looking forward to larger deals. Azla expects a comeback in its traditional portfolio sell-side business, as secondary specialists that sat on the sidelines last year are becoming much more active, said Waxman.

Intermediaries also say their client bases are changing, as sellers are opportunistic once more, rather than primarily distressed. Andrew Sealey, a managing partner at Campbell Lutyens & Co., said he is seeing fewer closed-end and listed funds with liquidity issues, as was common in 2009, and more banks with balance sheet and regulatory issues and other discretionary sellers such

as endowments and pension funds that want to sell for portfolio management purposes.

“The sellers coming to market are motivated by both opportunistic and strategic reasons, which is a change from last year,” said Nigel Dawn, a managing director at the private funds group of UBS Investment Bank.

Intermediaries expect to spend a lot of time working with banks this year. Sealey noted his firm is working with banks from the U.S. to Europe and Asia, with portfolios up for sale ranging from \$500 million to \$1 billion plus (see story on page 6 of the *Guide to Secondary Market Buyers*). That may also change the type of work that intermediaries find themselves doing.

Banks could be more likely to sell their entire exposure rather than select funds from within a portfolio, said Sealey. Banks also in some cases hold and are potential sellers of direct portfolios of private equity assets, and these are typically more complex and specialist processes than portfolios of fund interests, said Sealey. Such transactions involve a mix of traditional secondary advisory skills associated with a multi-asset, multi-party sale process as well as more traditional corporate finance and mergers and acquisitions skills, he noted.

“There will be a redesign of the private equity ownership base this year with sales by banks, insurance companies and other types of lenders,” said Francois Garcin, founder and managing director of Fidequity Group.