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European Secondaries Summit: Key Themes

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At the European Secondaries Summit in London this week, delegates from the secondaries world revealed their views on what is driving growth in the secondaries market, challenges facing the market and key emerging trends.

Here is a download on the event:

- Volume. Across all subsets of the secondaries market, it's clear that volume and size are increasing. Delegates agreed that the $100bn figure we've all been waiting for is likely to hit in the next two years, subject to the impact of a major market correction. There are plenty of opportunities across the spectrum of the market, and the main challenge is human capital to keep up with the variety of options and deals.
- The two buzzwords of the day and clearly the biggest evolution of the market this year: the rise of "Preferred Equity" and "GP-leds":
    - Preferred Equity. It's clear that the pref equity houses are doing phenomenally well and are determined to ensure that one bad trade doesn't bring the industry down. A key focus is ensuring that the deals are "win, win, win" for everyone involved and everyone walks away feeling good about the deal. This is still a small segment of the market but one which is growing extremely rapidly. The pref houses are clearly still plugging a gap, albeit it was acknowledged that some financial institutions are getting very creative and potentially starting to close that gap
    - GP-leds. With echoes of the secondaries market itself, the GP-leds have emerged from being a last resort for struggling GPs to deal with troublesome assets to a standalone subset of the secondaries market providing genuine optionality and liquidity to GPs and LPs. It's clear this product is now being used across all types of situations, and delegates said that all GPs are now looking at this, with the suggestion that we may well see GPs providing for this in their LPAs going forward. The jury is still out on how these deals will perform, but they accounted for over 40% of the market in the first half of the year, so the growth trajectory is phenomenal – fifteen fold in the last five years. Delegates expected

that the funnel of outcomes would be very broad. Key concerns from the market were ensuring transparency, managing conflicts properly, giving LPs enough time to consider deals and a feeling that LPs are becoming overwhelmed with requests to consider these transactions with small teams not equipped to make the assessments necessary for a GP-led. LPs are leaning heavily on advisors to educate and guide them through the process. Another challenge was the financing of the GP commitment on GP-leds given the time constraints on GPs raising capital and time lag on the carry. An opportunity for our clients providing GP financing?

- Leverage. It's clear that leverage is no longer the dirty word it once was in secondaries, with many GPs agreeing it forms an important part of their strategy when it comes to secondary trades in their various guises. The GPs in the room that didn't use leverage acknowledged they were losing deals to secondary players using it. Interesting that for the first time this year one LP asked a GP to explain why he wasn't using leverage. GPs noted that finance providers were getting more creative advancing against increasingly more concentrated portfolios, LTVs were rising and pricing generally coming down, particularly for the "vanilla" diversified LP interest deals driving financiers to look to be more innovative. So much so that secondary houses now are hiring both bankers and lawyers with credit experience to enable them to bring this expertise in-house.

Although it remains a relatively small subset of the private markets, secondaries really does seem to involve some of the most creative and innovative solutions to GP/LP liquidity requirements. I'm already looking forward to seeing how the market has developed by this time next year.