

Snapshot: private equity secondary transactions

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In its most straightforward guise we tend to think of a private equity secondary transaction as a limited partner (LP) selling its fund interests to another party to generate early liquidity for itself rather than waiting for the fund's life to end. The buyer subsequently steps into the shoes of the seller and assumes the selling LP's rights and obligations (including its partnership interests and commitments).

As many people reading this will appreciate, the secondary private equity market is seeing an ever increasingly diverse and sophisticated number of secondaries transactions and secondary funds seeking to purchase LPs' existing commitments.

Secondaries: the traditional approach

Secondaries transactions have become less about LPs simply generating liquidity and are now being widely used by institutional investors as a tool to actively manage and strategically realign their private equity portfolios. The huge growth of secondaries over the last decade has been supported by the development and expansion of the market's intermediary channel, including the availability of secondary advisory firms to support and co-ordinate transactions.

Secondaries: the 'GP or Manager-led approach'

General Partner (GP) or Manager-led secondary transactions have been on the increase over the last few years and were particularly popular in 2020. Given the ongoing economic challenges caused by the Covid 19 pandemic, we anticipate this trend will continue.

Whilst GP-led transactions can take a wide variety of different forms, they all essentially revolve around the same basic structure whereby existing investors have an option to either 'rollover' their initial interest or exit, with secondaries buyers underwriting the transactions and any corresponding purchase price.

One such form of a GP-led transaction is a 'continuation vehicle transaction'. During this process, a GP will sell its existing portfolio to a newly established special purpose vehicle (the continuation vehicle). The GP will then offer the existing LPs the option to cash out and gain liquidity, 'roll over' their current investment or invest additional capital alongside the new investors in the longer life continuation fund.

In another popular form of GP-led transaction a proportion or 'strip' of all or a select group of one or more assets are sold to provide LPs with liquidity. A new vehicle is established to purchase the strip of assets and typically this vehicle will be liable for future calls on a pro-rata basis with the main fund. We are also seeing a number of bespoke and hybrid transactions which take elements from the above or other transaction structures falling within the GP-led secondary 'umbrella'.

It is predicted that the secondaries market will increase exponentially in the years to come, with 2021 expected to be another record year.

The funds and corporate team at Ogier has acted for LPs, GPs and Managers on a number of high profile secondaries transactions and has significant experience of guiding stakeholders through the life-cycle of a secondaries transaction. Please contact your usual Ogier contact if you require any further information.

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