

Private equity secondary market – market structure

The efficiency of the private equity secondary market should not be measured by volume alone. Specialized players, such as Multiplicity Partners, play a vital role by providing liquidity to an important, yet neglected part of the secondary market.

Contrary to popular belief, the secondary market is heavily intermediated

Many buyers would state that they primarily rely on their proprietary sourcing capabilities. Particularly in the mega deals segment, however, the vast majority of secondaries is intermediated to some degree.

Secondary market participants are increasingly interconnected.

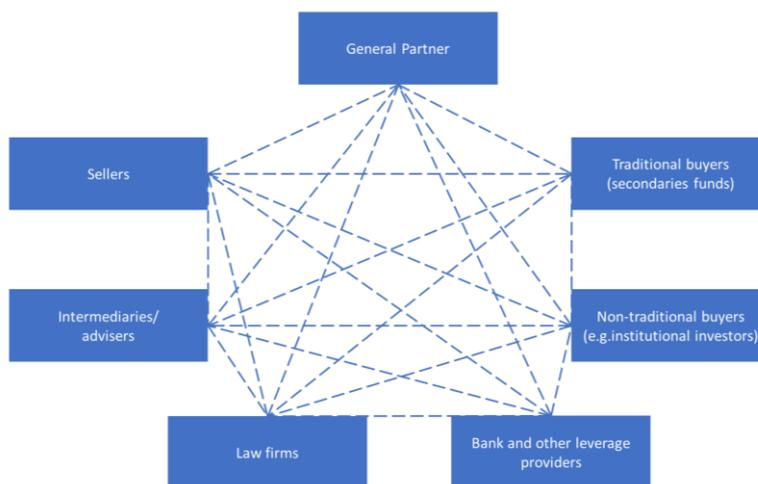


Figure 1: Secondary market participants

It is not only the intermediaries (advisors or brokers, respectively) who contribute to more competition and firm pricing. Newer market participants, which can be non-traditional buyers such as institutional investors, also play their part, as they opportunistically buy fund interests.

Some of these buyers may have substantially lower IRR targets, and may therefore be prepared to pay higher prices than a dedicated secondaries fund manager. Some banks have started to lend aggressively to secondary buyers and may have contributed to prices being driven up, which again draws additional sellers to the market.

Several factors drive secondary market pricing, and market bi-furcation

| | Mega deals | | Small deals |
|----------------|---|---|--|
| Deal size | Above USD 50 mln | ◆ | Below USD 50 mln (a.k.a odd-lots, if below USD 5 mln) |
| Typical assets | Brand name buyout funds, often diversified portfolio | ◆ | Smaller and mid-market private equity funds |
| Volume | ~ 75% of overall | ◆ | ~ 25% of overall |
| Intermediation | Mostly brokers/auctions | ◆ | Less common, often negotiated bilaterally |
| Pricing | Around NAV Strong reliance on GP quality, pricing driven up by leverage | ◆ | Varies Requires bottom-up analysis of portfolio company, stringent due diligence on GP |

Figure 2: Bifurcation of the secondary market by size

The bulk of coverage in the media might suggest that private market funds are only held by large institutional investors such as CALPERS, APG or GIC who have the firepower to commit hundreds of millions per fund. Looking at European private equity data provided by InvestEurope, however, we find that the average fund size is below EUR 200 million. This implies that the median size per LP interest is actually well below EUR 10 million.

Taking the road less traveled

By definition, only one in four funds can be top-quartile. At the same time, 80% of demand is chasing exactly those top-quartile funds and their GPs. This leaves a significant part of the market under-covered, and under-served. Multiplicity Partners caters to these smaller and less-than-stellar performing investment holdings.

No matter how small your LP interest, or how well it performed: contact us if you consider a sale and would like to quickly receive an indicative pricing.

Please write to Andres today at ah@mpag.com, or call him at +41 44 500 4555.



Andres Hefti is a partner at Multiplicity Partners. He is responsible for the firm's private market secondary business and has more than 17 years of experience in alternative investments, distressed investing and portfolio management. Before joining Multiplicity in 2012, he held various investment roles with the alternative asset managers Horizon21 and Man/RMF. Andres holds a MSc in Mathematics from the University of Zurich and is a CFA and CAIA Charterholder.

About Multiplicity Partners

Multiplicity Partners is an investment boutique specialized in providing liquidity to holders of private market funds and distressed assets. The firm also offers a range of governance and advisory solutions across alternative assets.

Since 2010 Multiplicity Partners has been active in the secondary market for illiquid and distressed assets, as buy- and sell-side advisor, investment manager and principal investor. The team has successfully completed dozens of transactions across a wide range of illiquid and complex financial assets and established a global network of industry contacts. Each partner contributes more than 16 years of relevant experience that give us the collective capabilities to effectively identify, analyse and execute attractive investment opportunities in hard-to-value assets.

Multiplicity Partners was founded in 2010 and is based in Zurich, Switzerland.

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