

Private equity secondary market

It is getting hard to argue that private equity is an illiquid asset class. With record amounts of capital seeking to be deployed in secondary market transactions, private equity investments of almost any size and shape can be sold swiftly and in a very competitive fashion today. In this short research note we provide insights into the current pricing levels and the volumes deployed in the private equity secondary market.

**Absolute pricing levels at all-time high**

For the private equity sub-sectors buyout, venture and fund-of-funds we examine the historic performance graphically and calculate the return from the pre-financial crisis (2004 to 2007) highs until the end of June 2016.

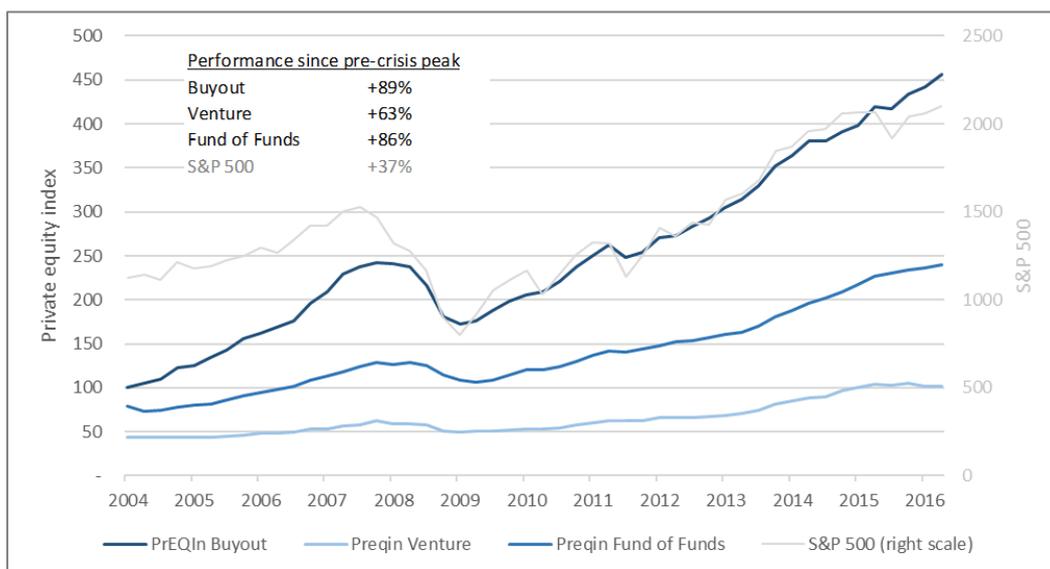


Figure 1: Performance indices for average private equity fund, 2004 to 2016; source: Preqin, Bloomberg

While public equity markets, in particular in the US, have recently reached new all-time highs, the private equity asset class has performed even better and is now around 80% above its pre-crisis highs.

How did secondary market pricing develop over the past twelve years? We see a substantial heating-up in the market over the past few years, but it has hardly become as frothy as before the subprime crisis. Despite the re-emergence of levered secondary buyers and strong competition for deals, the overall buying community remains rather disciplined in terms of pricing. Some sought-after, top-performing buyout funds in the US may trade at or above par, but on average fund interests trade at a 10% to 20% discount to NAV.

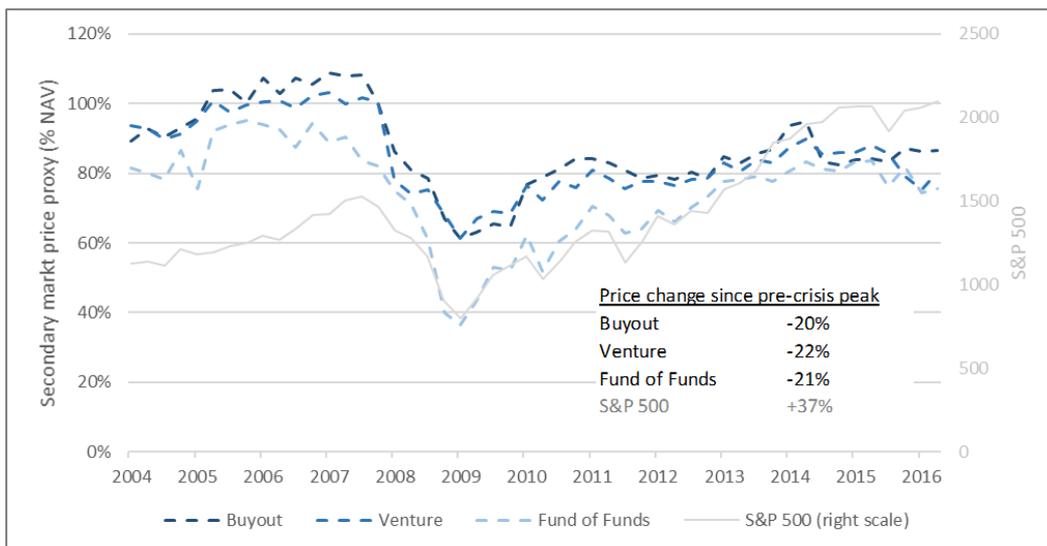


Figure 2: Secondary market pricing proxy index, source: Multiplicity Partners’ calculation using various publicly available and internal data sources

A combination of private equity performance data with the secondary pricing index allows us to calculate a “secondary value” index. There are some simplifying assumptions in this calculation but overall we believe this to give a representative picture to assess the absolute value you get in the private equity secondary market.

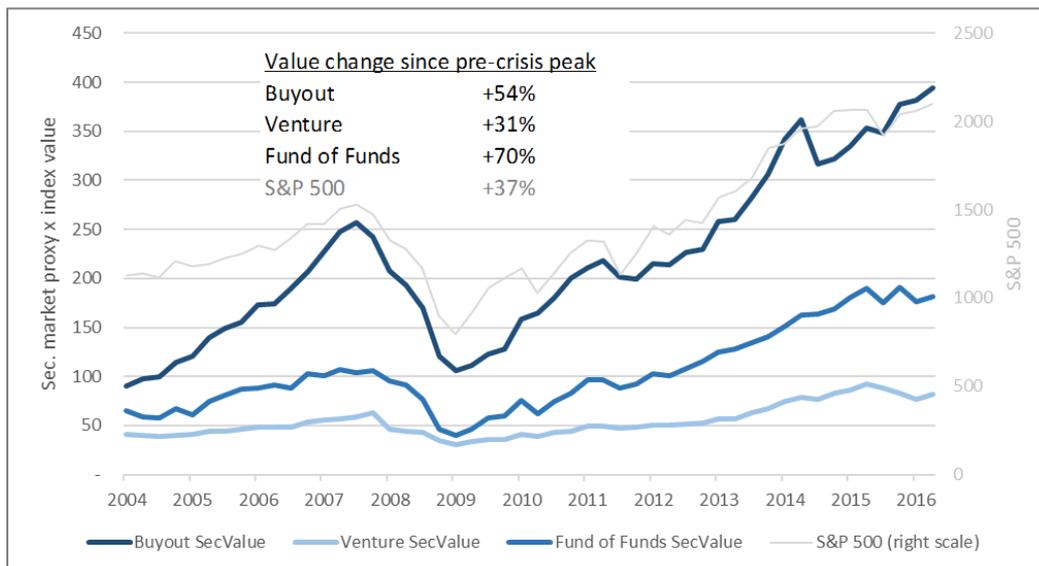


Figure 3: Secondary market proxy value index, source: Calculated using Preqin’s performance index and Multiplicity Partners’ secondary pricing proxy

In essence the chart presents an interpretation that does not only look at the secondary market pricing relative to NAV but allows to look how rich or cheap NAVs are at any point in time.



**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 specialised in providing liquidity solutions to holders of private market funds and distressed assets. The firm also offers a range of advisory and governance services across alternative assets.

Multiplicity Partners has been an active participant in the secondary market for fund interests and distressed assets since 2010, acting 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 15 years of relevant experience, giving us the collective capabilities to effectively identify, analyse and execute attractive investment opportunities in hard-to-value assets.

Multiplicity Partners is an independent and management-owned company. Personal accountability of senior professionals ensures quality of work, reliability and attention to details.

Multiplicity Partners is a member of the Financial Services Standards Associations (VQF), a self-regulatory organization in Switzerland pursuant to the Anti-Money Laundering Act – officially recognized by the Swiss Federal Financial Market Supervisory Authority (FINMA). The company is authorized by FINMA to distribute collective investment schemes to qualified investors in Switzerland. Multiplicity Partners is audited by PricewaterhouseCoopers (PwC), Switzerland.

Multiplicity Partners is a member of Invest Europe and an Associate Member of SECA (The Swiss Private Equity & Corporate Finance Association).

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**Record secondary market volume as sophisticated investors take profits**

Global deal volume hovered around USD 40 to 50 billion in each of the past two years, setting new records. Who was driving this increase in deal volume?

On the back of strong historic track records, some dedicated secondary specialists have been able to raise stunning amounts of cash. In April 2016 we saw the closing of Ardian Secondary Fund VII at a record-breaking USD 10.8 billion (notably just two years after having closed their Fund VI at USD 9 billion). According to data of Preqin, the ten largest secondaries managers alone have more than USD 54 billion of undrawn capital or “dry powder”. But not only the behemoths have gained steam, also many small-cap and niche secondary players have emerged and are able to provide liquidity for smaller and lesser-known private equity fund interests.

What was equally important to generate these record amounts of turnover in the secondary market is that some of the largest and most sophisticated investors globally decided to start taking profits on their private equity allocations. Since the start of this year alone, Preqin reported on sales from leading institutional investors such as:

- CalPERS
- Ontario Teachers' Pension Plan
- GIC (Singapore)
- Employees' Retirement System of Texas
- New Zealand Superannuation Fund
- Universities Superannuation Scheme

As some of the most influential institutional investors have started to use the secondary market to take profits or to rebalance their multi-billion private equity portfolios, we believe it just a question of time before smaller private equity investors start to uncover the effectiveness of today's secondary market.

Multiplicity Partners is happy to provide private equity investors with indicative pricing levels for their portfolios or single LP interests.

## **About Multiplicity Partners**

Multiplicity Partners is an investment boutique dedicated to providing private market transactions and advisory solutions in alternative investments.

Over the past six years, the firm has transacted a wide range of complex assets and illiquid alternative investments and ran auction processes on illiquid investments from below USD 1 million to above USD 300 million in value. Multiplicity Partners established a strong global network of private market investors and secondary market participants.

As an independent and management-owned company Multiplicity Partners is able to offer its clients flexible and tailored solutions. Personal accountability of senior specialists assures quality of work, reliability and attention to details.

The firm was founded in 2010 and is based in Zurich, Switzerland.

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