Secondaries Investor

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NEWS & ANALYSIS

Multi-fund, multi-asset GP-leds see growing interest

A slower M&A market is at the heart of the spike in popularity, Kirkland & Ellis secondaries partners tell Secondaries Investor.

There's growing interest from private equity firms for multi-fund multi-asset continuation funds, a team of lawyers has told Secondaries Investor.

Kirkland & Ellis has advised on these transactions in the past, but they have very much been the exception to the rule, London-based Ted Cardos told Secondaries Investor in a recent interview with the law firm's global secondaries partners.

However, as the M&A market has slowed and managers search for a way to get distributions back to their LPs, interest in these deals has increased. If managers can find companies that are ready to exit and that have appropriate debt packages that aren't maturing in the next three to four years, "you can lift those assets out across two [or] three funds and create a transaction at the right kind of sweet spot where you can get traction in the secondaries market to provide liquidity at a fair value to your LPs", Cardos explained.

Managers are thinking very carefully about maximising potential for exits; in some instances, continuation funds could offer a solve to combine assets being held across funds, said Aleksander Bakic of the firm's London office. He added that, historically, this has been difficult to do.

Such transactions aren't straightforward. "Take the regular Rubik's Cube and you make it… a 12 by 12," noted Sean Hill, based in Kirkland's Boston office. "It's the same issues, but now you've got even more conflicts."

Cardos: Multi-fund continuation vehicles have previously been the exception to the rule

Portfolio construction is also a key consideration. One of the biggest transactions Kirkland has advised on was a 27-company deal across 14 funds, Cardos said. One of the toughest negotiations was around the lead buyers' valuations of different portfolio companies. There was extended dialogue between the lead buyers on pricing, as well as debate on whether to drop a company from the transaction. Ultimately, consensus was reached.

"From a fiduciary perspective, you can't have one fund subsidising another fund," Cardos said, giving an example where another buyer may be willing to make a higher offer for one company within a fund in a standalone transaction. "You have to make sure that the whole portfolio of everything that's being sold is being sold at top pricing for everything."

Secondaries' new investors

As the scale of opportunities in the secondaries market has grown, more investor types have emerged as backers of secondaries transactions.

"We're getting various people from all over the world that are coming into these deals, because they're interesting," Hill said.

The market has seen a "massive expansion" of secondaries-focused placement agents and financial advisers over the past three to four years, Damian Jacobs, who is based in Kirkland's Hong Kong office, said. As those players seek out backers for transactions, different sources of capital are coming into deals.

Secondaries' expansion across different asset classes has also played into the growth of the buyer universe, Bakic said. There is a different universe of investors across real assets, infrastructure and credit compared with private equity. Other teams dedicated to certain asset classes within an LP may take a different view on secondaries transactions.

In some instances, these new investors are looking to lead on GP-led secondaries transactions.

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In order to win lead positions on these transactions, some non-traditional investors are looking to the lower end of the market – at the $20 million to $50 million range – in a bid to avoid competition from larger buyers. "That's… a universe that has really expanded recently, just because of dealflow and the amount that's… come into the market," New York-based partner Mark Boyagi added.

In some instances, however, traditional buyers have lost out to new entrants. Kirkland has advised buyers who believe they won't be beaten on pricing by their peers, "but then a non-standard player comes into the picture and they have a different cost of capital and they have a different way of underwriting that deal", Bakic explained. "That's not something that was really happening as much even three, four years ago."

This article was amended on 21st March to correct an error in the range for the lower end of the market.

Bakic: Managers are thinking very carefully about maximising potential for exits

Hill: We're getting people from all over the world coming into these deals because they're interesting deals