Secondaries Investor

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Q&A

Rudy Scarpa discusses Pantheon's GP-led plans

Buyers should beware of sponsors using the GP-led market to drive undeservedly favourable terms, said Pantheon secondaries co-head Rudy Scarpa.

In many ways, 2021 was the year of the GP-led deal.

They accounted for 60 percent of transaction volume in the first half, according to Evercore's half-year secondaries market review. Transactions focused on a single company accounted for a quarter of all secondaries deals in the first half, equivalent to $12 billion, the investment bank found. This compares with $14 billion for full-year 2020.

Last month, Pantheon, the 10th-ranked group in the SI 50 list of the largest fundraisers in secondaries, held a $624 million for final close on its first fund dedicated to GP-led secondaries transactions, Pantheon Secondary Opportunities Fund, Secondaries Investor reported.

We recently caught up with Rudy Scarpa, co-head of the Global Secondaries Team and its US head, to discuss the rationale for the new fund and GP-led deals at large.

Why did you decide to raise a dedicated GP-led fund?

We raised a fund dedicated to GP-led secondary transactions, particularly single company deals, to meet the needs of investors that are seeking specific exposure to this part of the market.

In addition, there is a benefit to having more capital and potentially positioning yourself as the lead, as you are less likely to be cut back in an oversubscribed transaction.

Can you speak to the quality of single-asset deal flow in the market now?

Single company secondaries typically involve high quality – often times trophy – assets. However, there is the potential for a GP to seek to use the secondary market to sell a portfolio company at terms they could not otherwise receive.

We're able to navigate through that conflict with the benefit of our platform, including our GP relationships and information advantages.

Do you worry about overconcentration given that there is only one asset in many of these deals?

From a portfolio construction and diversification perspective, you can receive an adequate level of protection investing across 35-40 companies [via single asset deals].

Given the dry powder reserves and large new entrants, via acquisition, to secondaries, will there be new entrants down market?

I expect that there's going to be new entrants in this space as a result of the attractiveness of the opportunity.

The key for any new group will be a competitive edge. For example, if you don't have a broader platform, including a primary fund of funds business and deep general partner relationships, you may find yourself on the outside looking in on the better deals.

What is your outlook on the GP-led space going forward?

The GP-led single-company secondary space and transaction volume is going to be much larger than that of the traditional LP market in three years.

The economic incentives for GPs, in addition to the potential benefits for existing investors and new secondary buyers, are so strong in these deals I anticipate the market for them will continue to grow.