
KEYNOTE INTERVIEW

Single-asset deals: The ultimate win-win



These transactions bring advantages for LPs, GPs, management teams and secondaries buyers, say [Kevin Dunwoodie](#) and [Charlotte Morris](#), partners in Pantheon's global secondaries team

Q How can single-asset deals help to solve challenges faced by LPs, GPs and management teams?

Charlotte Morris: These deals work for LPs because they can access liquidity that was either not previously available, or that created other issues such as loss of control or longer time to exit – and they can do so at attractive valuations.

This is beneficial to GPs, who above all else want to keep their LPs happy. At a time when managers are coming back to market quickly, generating distributions on earlier assets can create capacity with those LPs, allowing them

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to commit to the latest fund. The GP can also participate in and fully realise the continuing upside of their best investments, which otherwise would have been sold to a third party.

Management teams, meanwhile, can continue to work with an existing and trusted owner and, at the same time, have the opportunity to take some liquidity while offering new team members who were not around when the original transaction was cut a chance to participate.

Q Why might this model be preferable to a traditional hold followed by a trade sale or secondary buyout?

Kevin Dunwoodie: The key is that the GP retains control of the investment. Previously, they would have had to sell to a competitor as the fund reached the end of its term – and then potentially watch that buyer generate attractive returns from an asset that the GP knew was high quality. With a GP-led deal, the fund manager can maintain the momentum of the company and retain that positive working relationship with the management team, which may even attract greater returns

than were possible in the first leg of the investment.

The single-asset structure also provides the GP with the capital needed to support the business going forward, which may not have been available within the original fund construct and can be used to finance acquisitions or other strategic initiatives.

Q Why are these deals attractive for buyers?

CM: Often, these transactions involve trophy assets. We invest alongside a GP and a management team who know that company inside out and have a clear plan for creating value during the longer hold. Ultimately, these transactions are driven by an equity story that the GP wants to capture, whether with transformational M&A, or a change in the market environment that could drive the next phase of growth. These deals also have the classic feature of a secondaries deal, in that they are known assets that we can diligence in detail. Our risk is therefore moderated in contrast to blind pool capital.

Q What else do you look for in a single-asset deal?

KD: In addition to the quality of the asset, we are looking for strong alignment. We want to see the GP rolling the vast majority, if not all, of its carry. We need to be convinced the GP – and the management team – are primarily buyers in the transaction. The GP will often put additional capital into the deal, including capital from its most recent fund. We also want the alignment structure to incentivise the GP to produce exceptional returns, so tiered carry is important. In short, the GP should only do well if we do well.

CM: Another key selling point for us would be the opportunity to work with a GP where we have an existing relationship. We start with a strong foundation of trust and can fully evaluate the quality of the asset in which we are already invested.

Q How do you manage risks around valuation and potential conflicts of interest?

CM: We are looking for validation that the price is arms-length. This can come from an external third party, or from a competitive process. In order to assure independent management of the process and transparency, GPs will typically engage a secondaries adviser. This is important for existing LPs as well, to ensure conflicts of interest are well managed. It is vital to have the LPAC on board with the transaction and to ensure that the GP is being open with investors so that any potential conflicts are addressed.

“As these deals become more widely understood, we will continue to see trophy assets come to the market”

CHARLOTTE MORRIS

Q How competitive is the single-asset market today?

KD: There is certainly competition, but less than we are seeing on the LP side of the market. Few firms have the capability to lead these transactions and drive terms. Meanwhile, there are some deals in the GP-led market that are not getting done because there is less capital available than there are opportunities to invest.

CM: We also find that middle-market deals, in which we have significant experience, can be less efficient and less competitive. Some secondaries buyers would not necessarily dedicate resources to deals involving more moderate

cheque sizes, or they may not have access to these deals because mid-market GPs can be more restrictive in who they approach. Mid-market assets also typically have multiple exit routes. For all these reasons we are finding some interesting opportunities where we have a competitive advantage.

Q What does it take to be successful in this space?

KD: It is hugely beneficial to have a global platform with a network of GP relationships from which to originate deals and gain an information advantage. I also think GPs prefer to work with groups that support them on a primary basis. The GP ultimately decides the winning bidder and it doesn't always come down to price alone; relationships are key.

CM: Scale and expertise of the resources available to you are also important. You need a large team to diligence and negotiate the structuring of these transactions and the experience necessary to dig deep into the underlying companies.

Q What does the future hold for this part of the market?

KD: This is a new and important way for GPs to consider holding and exiting their assets that enables them to retain control of their best companies and maximise potential returns. So, I think growth in this market is a long-term trend.

CM: This is just the tip of the iceberg. We have already seen the impact of GP-leds on secondaries volumes over the past couple of years and that is just the GPs that have entertained the idea so far – the first movers. As these deals become more widely understood, we will continue to see trophy assets come to the market. For us, that means the opportunity to participate in some really exciting growth stories, without the drag effect of less successful assets that might exist in a fund. ■

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