KEYNOTE INTERVIEW

Secondaries at the forefront

The evolution of the secondaries market, and developments around evergreens and the wealth channel, are helping to address LPs' liquidity requirements, say Pantheon's Jeff Miller and Amyn Hassanally

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Q How is the role of the secondary markets evolving?

Amyn Hassanally: Increasingly, we are seeing secondary markets taking a more prominent role, not just in addressing liquidity needs for private equity investors, but also in relation to portfolio management imperatives.

Historically, the industry served primarily as an avenue for LPs seeking to access liquidity via portfolio sales, but we now see widespread adoption, with both LPs and GPs turning to the market. They are using it to manage portfolios thoughtfully, to reduce the number of GP relationships they maintain or to redeploy capital to other areas, in addition to providing liquidity during periods of constrained distributions, crisis or distress.

More recently, since around 2018, we have also seen the secondary market being used to provide the opportunity for further value maximisation for outperforming assets, and to support the continued private ownership of steadily compounding assets by PE managers.

Over time, this market has been adopted by GPs and LPs of all stripes, including secondaries funds and other funds of funds. We see this evolution continuing as LPs and GPs that have previously never utilised the secondary market are doing so today, and we believe many will become repeat players.

Jeff Miller: The secondary market has also evolved from being mostly opportunistic to now being viewed as a planned and orderly route for LPs to generate liquidity and redeploy capital. The reasons for that have changed over time, and there is always a reason of the day. But the reality is that, at a high level, these illiquid markets need a certain amount of liquidity available.

Historically, we have seen around 2 percent of the private equity market's net asset value (NAV) trading on an annual basis.

We are, of course, still seeing average hold periods that are as long as they have ever been. The increasing macro uncertainty going into this year means we won't see a significant pick-up in exit activity, and so if those problems persist, with an almost unprecedented build-up of NAV, that is going to take some time to normalise.

Despite coming off a record year for the secondary market, the drivers are still in place to fuel more activity in the near to medium term.

Q What are you observing in terms of the strategic use of secondaries in PE portfolios?

JM: We are certainly seeing the growth of that more structural element, where funds of funds and other players are looking more routinely towards the secondary market, reviewing older NAV in their portfolios and seeing secondaries as a way to sell these tail-end positions and unlock capital for their LPs.

AH: Another multi-year trend we have seen, separate to the liquidity needs driving the market currently, is the prevailing steady-state LPs accessing the secondary market to prune their portfolios. They may wish to minimise the number of GP relationships that they have, and so they are selling funds because they have maybe 50 relationships and want to get that figure down nearer to 20, for example, which is much easier to manage and monitor.

In those cases, sellers may be somewhat opportunistic, establishing a reserve price below which they won't transact.

We also see that opportunistic approach on the GP side, with multi-asset GP-led transactions. There, GPs are packaging up companies from two to four different funds and putting them into a single continuation vehicle. Last year, approximately 37 percent of all multi-asset GP-led deals were those types of transactions.

JM: There is certainly a bandwidth consideration for many LPs, who increasingly find challenges around managing so many GP relationships. We have seen LPs scale back on the number of GP relationships they maintain, without feeling they are sacrificing diversification. LPs used to feel that they needed 40-50 funds in their portfolio to be diversified, but now many are comfortable with 20 or 25 funds.

Q What impact are evergreen vehicles and other new entrants having on secondaries pricing and competition?

JM: Those vehicles are certainly increasing competition, in the sense that there is more capital coming into the market from what has historically been an underallocated investor base of wealthy individuals. Are they affecting price? That is still an open question, and occasionally we do see some evidence of that. But they are not structurally moving the market at this point.

Secondaries work really well in those vehicles because they are

Q Where are you seeing innovation?

AH: There is constant innovation in the private equity industry, particularly in response to liquidity constraints. In just the past decade, we have seen the emergence of dedicated GP-led funds, NAV lending solutions, preferred equity providers, GP stakes businesses and sports franchise secondaries players, for example. All those providers of alternative access points to liquidity have moved beyond the traditional secondaries funds focused on LP-led and GP-led transactions.

Looking ahead to the next wave of innovation, at some point the code will be cracked to provide liquidity to all the private wealth feeders that have been raised over the past decade or so. So much money has now been raised for private equity via small tickets from thousands of individual investors, and at this moment in time that is an area ripe for liquidity provision.

diversified and largely funded at closing, which means you can put capital to work more readily via secondaries than primaries. That means when firms raise semi-liquid vehicles, secondaries are something they want as part of the toolkit.

From a pricing standpoint, our semi-liquid vehicles invest alongside our closed-ended institutional funds, so pricing needs to work for all investors.

AH: In rare cases, we have seen evergreen vehicles bidding on their own, and due to their lower cost of capital, they have been able to bid more than traditional secondaries funds. But, for the most part, they invest alongside co-mingled funds to generate returns that work for the entire collection of vehicles.

Since the end of 2021, there has been a structural supply-demand imbalance in the secondaries market, where there hasn't been enough capital on the buyside to absorb the selling volume. That remains the case today, but the increase in these evergreen vehicles investing in secondaries opportunities is helping to provide more liquidity where it is needed.

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>
> **JEFF MILLER**

Q How do you see the role of GP-led deals in sponsor exits developing?

JM: The GP-led route is certainly gaining more acceptance from LPs as a viable exit route, after some initial reticence around whether GP-led exits were price-maximising exercises. In reality, GP-leds are not that different from sponsor-to-sponsor sales, which have become a meaningful part of the market and account for around a third of exit activity in any given year.

There are a number of reasons why GPs pursue a GP-led transaction, particularly where they have assets that they want to continue to own and believe they can continue to compound value. Raising money from the secondaries market offers an opportunity to drive additional value. So that does provide another tool for GPs, and we believe those deals are here to stay.

AH: In 2024, GP-led deals represented 14 percent of all sponsor exits. That was up 37 percent on 2023, compared with just 5 percent of exits in 2021. So we are seeing much greater adoption.

Will that abate if the traditional exit markets come back? What we observe is that single-asset GP-leds have seen a steady level of supply since 2018. With multi-asset deals, we may see some moderation if exit markets revive, but in the long term we do see this as a secular trend, as we believe GPs increasingly view continuation vehicles as a viable exit route. They may weigh multiple paths to exit when exit markets return more robustly, but continuation vehicles will likely remain as an exit option going forwards, given that the market is now firmly established, processes are increasingly transparent and documentation is well known and understood.

Last year, 65 percent of issuers of continuation vehicles were first-timers, and there is data that suggests that more than half of GPs that do a GP-led once will go on to do another. So we very much see this as a continuing trend for sponsors, particularly around single assets.

Q Finally, what does the longer-term structural shift from public to private mean for the asset class?

JM: With fewer IPOs happening and less pressure to do those deals, more assets are staying private and moving from one private buyer to another. As part of that solution set, GP-leds and continuation vehicles make a lot of sense.

The IPO route has not been a significant part of the PE exit market for some time; it is very notable when we do see IPOs, as they tend to be large deals with significant uplifts. But other routes to exit – sales to strategics, sponsor-to-sponsor and single-asset continuation vehicles – are much more prevalent.

As more of these assets stay in the PE ecosystem, without the desire to go public, we can expect more and more of that activity.

AH: That longer-term structural shift from public to private should create more demand for private assets from the investor community, because the best assets are clearly remaining private for longer, and there are more private markets exit routes available today. If that is where the best companies are, we can see investors thinking about how to access those, whether that is via secondaries or continuation vehicles.

That is certainly something investors are alive to, and that is another huge engine behind the growth of this segment that we don't see turning on a dime any time soon. ■

Jeff Miller is chief investment officer and global head of private equity at Pantheon, and Amyn Hassanally is a partner and global head of private equity secondaries

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