

## Secondary Pricing Improves In Third Quarter

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Pricing for secondary deals rose over the past quarter, raising the prospect that more transactions will close before year end, according to a report issued by secondary intermediary NYPPEX LLC.

Median secondary bids for all private funds increased by 29% between the second and third quarter of 2009, from nearly 39.9% of net asset value to nearly 51.6% of NAV, according to the study.

The report was based on \$2 billion in secondary volume that priced between July 1 and Sept. 30.

During the third quarter, venture capital funds continued to command higher prices than buyout funds, 64.1% of NAV versus 47.6% of NAV, according to the report. Median bids for distressed debt funds also outpaced their buyout brethren at 54.7% of NAV, the report stated.

Buyers continue to discriminate on quality. Individual buyout funds that had problems in their portfolios saw bid prices as low as 6.7% of NAV, according to the report. At the other end, the highest bid for a single fund, a hedge fund, reaching 93% of NAV, according to NYPPEX Managing Member Laurence Allen.

"When you find a motivated buyer for a particular fund, you have a better chance of getting to a price that the seller is willing to accept," said Allen. He added sellers are doing more to improve the attractiveness of the portfolios that they're putting up for sale, such as adding funds from older vintage years, which are more likely to start generating exits than more recent funds.

Allen said his firm saw a big pickup in the volume of single limited partner interest transactions during the third quarter, a trend that others in the secondary world confirm.

"The notion that deals aren't getting done is not correct," said Malcolm Nicholls, an attorney in the private funds group at Proskauer Rose LLP. "The market has now shifted to onesies and twosies. The portfolio sales that got out with 60 to 80 fund interests in a deal with six to 10 buyers buying six to 10 interests each, those deals ended late last year."

Nicholls estimated Proskauer has closed about 300 secondary transactions in the past 18 months, with a heavier emphasis on these smaller deals.

Secondary firms that specialize in buying small interests, including ones in a single partnership, say that they have found plenty to keep them busy this year.

Private Equity Investors Inc., for one, has deployed 15% of the \$147.7 million that it raised so far in an initial closing of its latest secondary fund, said to people familiar with the firm.

Samuel Tang, co-founder of Montauk TriGuard Management Inc., a Newport Beach, Calif., secondary firm focused on smaller transactions, predicted his firm would have little difficulty maintaining the roughly \$100 million annual investment pace that it has averaged over the years.

The volume of deals that the firm is passing on has dramatically increased. In the past 12 months, Tang estimates his firm has seen about \$5 billion in deals cross his desk, compared to an average of \$3 billion in annual deal flow volume in the past four years.

Even the pace of larger deals may pick up, as the secondary pricing continues to normalize and the fourth quarter kicks into gear, particularly if the pace of new deals continues to rise.

"Many of these LPs have analyzed and re-analyzed a variety of portfolio configurations and have tiptoed into the secondary market," said NYPPEX's Allen. "But we feel in the fourth quarter, many will firm up offerings and this is what many secondary buyers have been waiting for."

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