



Secondary Bids Rising: Did Secondary Players Miss Their Chance?

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A third quarter report from NYPPEX, a secondary QMS service, shows that pricing in the market for secondary private equity interest sales has increased. After hitting a low point earlier this year, the median bid has increased by 29.3% to 51.58% of NAV (net asset value). The increase is driven by heightened confidence in the exit market, stabilizing NAVs, and the sales of more mature fund interests, according to NYPPEX.

The increase in pricing may come as bad news to traditional secondary buyers, many of which have been patiently waiting on the sidelines for pricing to come down even further. The secondary market was thrust into the spotlight as the “next big thing” at the beginning of this year, thanks to the need for liquidity by many traditional private equity investors. Despite great anticipation of an influx in secondary market activity, the market hasn’t exactly exploded. Buyers complained that the “bid-ask spread,” or the difference between a seller’s asking price and a buyer’s ideal price hadn’t narrowed to suitable levels given the riskiness of some boom-era private equity funds.

In fact, secondary players have told me that in recent weeks, the only thing in the market is the portfolio of Stanford University, which Cogent Partners is shopping. The endowment has placed [almost all of its alternative asset portfolio](#) on the market with the intention of doing “synthetic” secondary deals wherein buyers and sellers form a joint venture, allowing buyers to take over part of the unfunded commitments in exchange for part of the return. (We [wrote about such deals](#) in January with the explosion of interest in secondaries.)

Despite the bounce back in pricing, some secondary buyers are still employing wishful bidding in hopes that pricing may fall to the deeply discounted levels of their dreams. The NYPPEX report states that the disparity between competing bids actually grew, meaning offers were all over the price. The firm believes that shows that liquidity in the secondary market is returning to normal.

The report also confirmed what we already knew about liquidity-[it’s mostly coming from first-time buyers](#), another fact that may cause chagrin among traditional secondary players. Experienced secondary buyers are so pessimistic about the performance of most buyout funds that they haven’t been active at all. They may have completely missed the buying boat if it’s true that prices are rising, and they continue to do so. A whopping 54% of completed secondary deals in Q3 went to first-time buyers. Traditional secondary funds made up just 31% of the volume.

Other notable highlights: venture capital is apparently a favorable fund sector. The highest price execution was for a hedge fund which garnered a 93.45 price execution. The lowest bids for buyout funds were between 6.77 and 9.69. Along with pricing, direct secondary deals increased in price by 81% to 35.71% of NAV to 19.64%.