

Private Equity Careers Centre

Your online resource to a career in private equity



How to get a job in private equity

What are secondaries

What Are Secondaries?

In this book we'll give you a practical perspective on what it's like to join a secondaries team. You may have come across text book definitions of secondaries and read about the sector in the news, but until now there was nothing to tell you what you would experience as a secondaries team member. Each sector in private equity suits different personalities and it's essential that you understand whether the secondaries market is something you'd enjoy and thrive in.

We've spoken to Associates with up to four years experience in secondaries and have combined their opinions to give an overview of what you can expect.

We'll cover:

- **Background to the market**
- **The attractions of a role in secondaries**
- **Types of secondaries transaction**
- **Secondaries investors**
- **What to expect when you join**
- **On the job training**
- **How your time will be split**
- **Knowledge and experience required**
- **How to develop within the role**
- **The interview process: what to expect**

Background

"Private equity secondaries" refers to the acquisition of existing investor, or Limited Partner (LP), commitments in one or more private equity funds which are managed by General Partners (GPs). The buyer of the commitment will replace the selling LP in the fund and take over any remaining commitments. Consequently, when a vendor sells their interests in a fund, the secondaries investor will have to value the underlying investments already in that fund as well as evaluate the GP because there may be some unfunded commitments which will need to be provided at a later date.

The secondaries market emerged to provide liquidity to LPs who had invested in private equity funds and had their capital tied up for the life of the fund which could be ten years or more. They wanted to crystallize their interest in that fund early. The reasons why an LP might want to sell their stake vary. It could be strategic, to adjust their allocation to that particular asset class, or it could be due to a need for liquidity.

In the last decade, significant funds have been raised and committed to dedicated secondary investors. The asset class has matured and pricing reflects this. In the early 2000's, when the dot com bubble burst, most secondary transactions took place at significant discounts to cost and were driven by distressed sellers. At the peak of the market, when appetite for private equity as an asset class was buoyant, secondary prices were at or above book values. Today the secondaries market has a larger supply of vendors and since there is more capital the volume of deals has increased to the point where secondaries is probably the fastest growing segment of the private equity industry.

The secondaries market has matured into more complex transactions and structures to suit the vendor's requirements. Today, secondary transactions can be financed with leverage just in the same way that direct investments can be financed. There are many institutional investors, such as large insurance companies, which invest in a variety of private equity opportunities such as direct investments in companies, funds and co-investments, so when vendors sell their private equity interests, the sale might include interests in a variety of types of private equity assets.

The attractions of a role in secondaries

1) **Broad investment outlook**

Secondaries are sometimes seen as the un-sexy part of private equity, a poor relation to mega-buyouts for example. But in fact secondaries offer something different – a much broader outlook on global investments of every vintage, industry, geography and of a vast number of companies at different stages in their lifecycle. You'll get to see a range of investments from numerous funds within different regional markets and you'll have to value them. You'll evaluate large amounts of information within tight time constraints and have to make commercial sense of the assumptions related to the underlying companies.