Proskauer

Question of the Week:

How are current levels of dry powder impacting GPs and LPs in the secondary market?

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"Dedicated available capital is estimated at $227 billion (as of June 30, 2022). We expect secondary investors to closely monitor valuations and public market conditions. But as investors continue to fundraise and deploy on pace with current expectations, the market appears open and well-capitalized heading into the fourth quarter."

Christopher Robinson, Private Funds, New York

"The U.S., Europe and UK are quite aligned. The dry powder available to secondary funds sharply increased in 2021, globally in conjunction with a sharp increase in secondary deals volume, for LP portfolios and for GP-leds, culminating at around $130 billion for that year. Most of the secondary players closed or are in the process of closing record funds. However, since the start of this year, the secondary market has been facing strong macro-economic headwinds.

In spite of the dry powder continuing to accumulate, the macro-economic conditions have resulted in a sharp slowdown in secondary activity in the first half of the year which will continue. Buyers have become much more cautious about risky assets, risk concentration and over pricing. Sellers have postponed or pulled off transactions because price expectations were not met. Hopefully when markets stabilize, volatility comes back to a reasonable level and all current giant fundraisings come to close, all conditions will be then met for a sharp activity pick up."

Bruno Bertrand-Delfau, Private Funds, London

“A record level of secondary dry powder was expended last year and the first half of this year, which resulted in many buyers being on or ahead of pace, with less pressure to deploy capital. Add in uncertain macroeconomic conditions and the resulting valuation discrepancy between seller and buyer pricing expectations, and there is an environment where buyers are being highly-selective about the assets they purchase. They are looking for “perfect” deals, and as a result, many sellers with portfolios that don’t meet that description have been delaying sales processes in hopes they can get better pricing later.

However, the current environment has also slowed down distributions, increased limited partner liquidity needs and seen several of the largest secondary buyers fundraising with anticipated totals of $15-$20 billion. Given all of that and a growing pipeline of deal flow, it’s evident that secondaries deals are just taking a small breather as buyers and agents prepare for an incoming tsunami of activity in Q4 and/or Q1 of next year.”

Mike Suppappola, Private Funds, Boston

“We experienced a particularly buoyant market last year. The levels of supply were such that buyers needed to carefully consider where to allocate resources, and some expressed concern that the market would reach saturation as supply outweighed demand.

There has, however, been strong secondary fundraising, with a number of the largest secondary buyers currently fundraising. While macro-economic and geo-political challenges has led to a slight slowdown in transaction activity, as buyers wait for the gap between sponsor and mark-to-market valuations to narrow, buyers should be well-placed to take advantage of increased transaction volumes as the market rebounds.”

Warren Allan, Private Funds, London

Related Professionals

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