



How Can Secondaries Bring Liquidity to Cash-Constrained Fully Invested Funds?

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[KPS Capital](#) [Newbury Partners](#) [Sun Capital](#) [Wachter Capital](#)

Both on the venture and buyout side, fully invested funds face a widespread challenge: there are no exits in sight and the portfolio cannot access capital.

Countless firms, including [KKR](#), [Bessemer Ventures](#) and in a way, [Bain Capital](#), have entered the market with annex funds to prop up their fully invested vehicles. Meanwhile, firms like [KPS Capital](#) and [Leonard Green Partners](#) have loosened recycling permissions on their funds, meaning they negotiated for more flexibility to re-invest proceeds on their portfolio companies back into the portfolio, rather than distribute it directly to investors.

If those solutions aren't an option, secondary funds can help. According to panelists at today's Private Equity Secondaries Conference in New York, there are a few ways secondary buyers are easing mature fund pain.

David Wachter of W Capital, a direct secondary buyer, said:

There is a large number of funds, probably over 1000, that are reaching year 10. We're seeing funds that are out of gas, with no capital no liquidity and limited recycling options. both on buyout and venture side. That pain is acute. We see that as an opportunity for direct secondary investments.

Hans Swildens of Industry Ventures said:

The GPs are talking to secondary funds. It plays out like this: First, they try to get a loan on the fund, and sometimes they can get a loan to the tune of about 5% of the fund, which will secure the GPs fees across the funds as a sub-guarantor to the fund. Then they ask LPs for annex fund. Those are often no-fee, no-carry annex funds, which doesn't really make the GP happy. When they can't do either of those, they try to cross their funds. We've seen two groups get that done, one in Boston and one in Sand Hill (*Ed note: We've also [seen one in Boca Raton, Sun Capital](#)*). The last thing they do is they come to us and ask if we can buy a strip of their portfolio or buy in on a preferred basis. So we'll buy a percentage of the holdings in 5 or so of the companies. Or, we'll put an LP interest in the fund, say a 6-8% senior LP preferred interest with a 1x or 1.5x first pay. The LPs have to approve it, of course.

Martha Cassidy of Capital Dynamics:

Some of the solutions I have seen are strip purchases. It's a pretty sophisticated transaction because you're dealing with the underlying securities of the individual companies. I expect there to be a lot more of these happening in the future.