



Secondaries players react coolly to new exchange

New York firm SecondMarket says it has attracted more than \$500m worth of secondaries for its new LP fund interest trading platform.

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SecondMarket, a New York-based company that aims to provide trading platforms for illiquid assets, has added a platform for limited partner interests in private equity, venture capital funds, hedge funds and funds of funds.

The firm said it had attracted listings of more than \$500 million worth of LP interests and stated 150 of its clients had expressed an interest in buying them.

“A centralised and transparent market operating in close coordination with the funds themselves is necessary to enable these limited partners to sell their positions,” said Barry Silbert, chief executive officer of SecondMarket, in a statement.

However, other companies, including New York-based NYPPEX, have already established trading platforms for private equity secondaries and market players have greeted the arrival of another platform with a degree of scepticism.

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Sam Schwerin

“The complexity of the transactions, which often comprise a mixture of different positions and assets, as well as tax and accounting issues, mean that only a few trades at the simplest end of the spectrum will ever get done,” one secondaries market player said in an interview. Non Disclosure Agreements were also cited as an obstacle to genuinely liquid trading.

Other secondaries players raised concerns that general partners’ rights to veto the sale of stakes in their funds, and their preference to prioritise existing partners when a stake comes up for sale, would hinder such an exchange’s progress.

“It is a fact of life that LP interests will have to change hands, but given the choice, GPs would like to stay in control of the transaction,” said Sam Schwerin, managing partner of US-based secondaries investor Millennium.

It has also been pointed out that secondary transactions do not lend themselves to open trading.

“There is a benefit to increasing the exposure of buyers to sellers, but at the end of the day these are all private transactions in which it is relationships and due diligence that get things done,” said David Wachter, managing director of secondaries investor W Capital Partners.

The majority of secondaries sales are arranged by specialist brokers such as Cogent, UBS and Campbell Lutyens.

Aside from the new market for LP fund interests, SecondMarket operates markets for bankruptcy claims, restricted securities and blocks in small capitalisation companies. It plans to announce the launch of markets for collateralised debt obligation and mortgage-backed securities within the next month.