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French Asset Manager AXA IM to Buy Private-Equity Secondary Specialist W Capital

The $900 billion investment manager is betting that more private-equity managers will use secondary transactions to generate returns from their funds

By Rod James

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An aerial view of Paris, where AXA Investment Managers is based. AXA IM's private-equity arm has agreed to acquire W Capital, a specialist in backing secondary transactions led by fund managers.
PHOTO: STEPHANIE LECOCQ/REUTERS

The private-markets division of AXA Investment Managers, one of Europe's largest asset-management firms, is acquiring W Capital Management in a bet on profound changes in how private-equity firms exit investments.

Paris-based AXA IM, which manages roughly $900 billion in assets, has agreed to acquire the New York-based secondary firm. Founded in 2001, W Capital specializes in secondhand transactions instigated by fund managers, also known as sponsor-led deals, AXA said.

W Capital and its $1.9 billion of assets under management will join AXA IM Prime, a business unit formed in 2022 to make a broad range of equity and debt investments in private-market firms and their investment vehicles, AXA said. AXA IM Prime managed around €34 billion, or roughly $37 billion, in assets as of December 2023.

W Capital co-founder and Managing Partner David Wachter will continue to lead the team and report to AXA IM Prime Chief Executive Pascal Christory, AXA said. As part of the deal, parent company AXA Group has committed $200 million for W Capital to invest on its behalf.

Sponsor-led secondary deals allow fund managers to recapitalize fund portfolio companies and extend their hold of those companies, while giving existing fund investors the option to cash out or stay invested.
Such deals have surged in popularity as selling businesses through mergers and acquisitions or listing them on public stock exchanges has become more difficult.

Wachter said these traditional exit routes are unlikely to return to normal soon, as more business owners see the benefits of staying private for longer and the number of large public companies able to buy businesses from private-equity funds shrinks. The number of listed companies in the U.S. has more than halved since 1996 to less than 4,000, according to data from the Center for Research in Security Prices, a database of financial, statistical and market information.

“There are 28,000 private-equity-backed companies,” Wachter said. “There’s no way that current inventory is going to exit within the next 10 years. GPs are right at the tipping point of having to rethink ‘when am I going to create liquidity for my funds?’ because they can’t wait for the IPO market and they can’t wait for the strategic M&A market.”

AXA appreciated W Capital’s ability to underwrite businesses with a high degree of detail normally more associated with a primary investor, such as a buyout fund, Christory said. The W Capital investment also expands AXA’s presence in the U.S.

Sponsor-led secondaries complement AXA IM Prime’s existing offerings, said Christory. They include fund investing, co-investing directly in businesses alongside other managers, acquiring minority stakes in fund-management companies, and issuing debt secured against portfolios of assets.

There was $52 billion of sponsor-driven secondary volume in 2023, roughly equal to the sponsor-led volume in 2022 but less than the record $68 billion in 2021, according to investment bank Jefferies, which brokers such transactions.

The most common type of sponsor-led deal involves something called a continuation fund, a fund with a reset time frame and fresh capital that is created to house assets transferred from older funds. In Wachter’s view, there are other types of sponsor-led transactions that could prove as useful to managers, such as private initial share offerings, where early investors in a business exit to longer-term investors such as mutual funds or sovereign- wealth funds in a private tender process.

The market will go from being linear to circular with secondary transactions growing into the “most meaningful and important exit strategy for GPs to deliver within a 10-year time frame,” Wachter said.

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