



**PRIVATE MARKET INSIGHTS**

# THE DEVELOPMENT OF COMPLEX SECONDARIES: PUBLIC MARKET TRANSACTIONS AND STRUCTURED LIQUIDITY SOLUTIONS

The complex end of the private equity secondary market is constantly evolving as buyers continue to innovate. Each individual deal must be tailored to the precise assets involved and the specific needs of the seller. This is never more so than with public market transactions and structured liquidity solutions.

These highly complex deals require specialized expertise and for many secondary buyers are, as such, inaccessible. For the minority capable of executing them, however, these deals can potentially create significant value.

**PUBLIC MARKET TRANSACTIONS (EMERGED 2007) ▶**

A public market transaction, or public-to-private deal, takes one of two forms, either:

1. The acquisition of a listed private equity vehicle via a tender offer for its outstanding shares, followed by a delisting (or take-private) of the vehicle; or
2. The purchase of the assets held by a listed vehicle, resulting in a distribution to its public shareholders

These transactions in effect take private a publicly listed fund-of-funds vehicle (a structure more common in Europe than in the US). This niche transaction type emerged as a solution for public market investors in these vehicles that faced a variety of challenges, including:

- > Difficulty in divesting public shares due to low trading volumes
- > Dissatisfaction with trading prices, which often represent discounts to the underlying value of the vehicle's holdings
- > Frustration with the vehicle's management team
- > A general need for liquidity

Buyers are typically drawn to these opportunities by the quality of the portfolio held by the listed entity. In addition, the assets are often available at a compelling price, usually as a function of the discount at which the public shares trade relative to the underlying portfolio's net asset value (NAV).

These deals require significant experience and resources, such as the ability to navigate complicated takeover regulations in multiple jurisdictions and address many other tax, legal, and reporting requirements.

### **Case Study: Public Market Transaction** **December 2016**

**Transaction:** Purchased portfolio of private assets from UK-based listed private equity fund-of-funds. Comprised of roughly \$1 billion of high-quality buyout funds and co-investments in US and Western Europe.

**Opportunity:** Large shareholders looking to sell, but as shareholder base was concentrated it was difficult for them to sell via public market. Entity consequently traded at average discount to its portfolio NAV of roughly 20%.

**Challenge:** Executing the transaction presented multiple complex technical issues. Ability to pursue the transaction as either a share tender (to own the company) or asset deal (to own just the portfolio) required deep knowledge of UK takeover code and procedures. Commercial due diligence on the assets had to be performed discreetly using extensive, in-house data so that the public markets were unaware of HarbourVest's intentions.

**Solution:** Prior to making an initial offer, HarbourVest completed its due diligence and solved key issues around a potential delisting, made possible by extensive historical tracking of the listed vehicle and its underlying assets. Secured agreements to sell from 43% of the shareholder base with terms that satisfied their needs, allowing for the rapid assumption of majority ownership after the offer's launch. With due diligence conducted in advance, the offer period was condensed to just 21 days, giving potential competitors only 3 weeks to replicate this work from scratch. Extensive preparation and expertise allowed for a pivot from a share tender to asset deal in response to a request from the company's Board.

The deal summary, general partner, and/or companies above are intended for illustrative purposes only. While this is an actual investment or relationship in a portfolio, there is no guarantee it will be in a future portfolio.

### **STRUCTURED LIQUIDITY SOLUTIONS (EMERGED EARLY-2000s) ▶**

Structured liquidity solutions are bespoke solutions designed to meet very specific liquidity and investment needs.

Every complex secondary market transaction is unique, but most can be filed under one of the aforementioned categories. However, there are highly customized solutions that are not adequately described by the other deal types, which we refer to as Structured Liquidity Solutions.

### **Case Study: Structured Liquidity Solution** **December 2015**

**Transaction:** \$77 million deal for assets of US investment manager seeking to reduce private equity exposure to comply with investment mandate and realize liquidity.

**Opportunity:** Motivated investor base seeking liquidity from a portfolio of investments, which featured high-growth US companies managed by a GP with a strong track record. The GP of the portfolio represented a new relationship, which HarbourVest saw value in developing.

**Challenge:** Private equity assets were part of a broad investment in a fund that included both private and public equity holdings.

**Solution:** HarbourVest worked closely with the GP to effectively split the selling LP's interest into public and private holdings, creating new reporting and distribution arrangements for the private assets. This allowed the seller to realize a substantial portion of its position while maintaining its existing exposure to the public assets.

The deal summary, general partner, and/or companies above are intended for illustrative purposes only. While this is an actual investment or relationship in a portfolio, there is no guarantee it will be in a future portfolio.



> For an introduction to secondary fund investing, please read our primer, **[“Secondaries: Risk Reduction with Attractive Returns”](#)**. This paper explains what secondary transactions entail, examines why you may want to consider making an allocation and provides an overview of key trends shaping the market.



For part one of this series, which examined GP-led transactions, please [click here](#).  
For part two of this series, which looked at spinouts and buy-ins, please [click here](#)



For more information on secondary funds, and how HarbourVest may be able to help you achieve your investment goals, please get in touch with your HarbourVest contact or email [clientservice@harbourvest.com](mailto:clientservice@harbourvest.com)

HarbourVest is an independent, global private markets investment specialist with over 35 years of experience and more than \$68 billion in assets under management, as of December 31, 2019. The Firm's powerful global platform offers clients investment opportunities through primary fund investments, secondary investments, and direct co-investments in commingled funds or separately managed accounts. HarbourVest has more than 600 employees, including more than 125 investment professionals across Asia, Europe, and the Americas. This global team has committed more than \$40 billion to newly-formed funds, completed over \$24 billion in secondary purchases, and invested over \$17 billion directly in operating companies. Partnering with HarbourVest, clients have access to customized solutions, longstanding relationships, actionable insights, and proven results.