

The Basics of Buying

Opportunistic buying can be an effective way to deploy capital, mitigate the j-curve, gain vintage exposure and/or generate outsized returns. However, buying in the secondary market can also be a time consuming and frustrating exercise. As such, new buyers should consider the following guidelines to make best use of their time and resources when pursuing secondaries.

Below are a few basic steps for buying in the secondary market:

Create a shortlist - Given the abundance of deals in the market, it's helpful to target opportunities where you have most interest and familiarity. This list can be circulated to brokers or used only for internal purposes. Buyers typically include funds in which they are existing investors or for which they have good access to information. Furthermore, by targeting managers that you invest with on a primary basis you can benefit from existing primary due diligence, and minimize the additional investment of time and resources in the secondary opportunity.

Understand the competitive landscape - To the extent that you are price sensitive and that your shortlist consists of well sought after funds, you should expect a lot of competition. New buyers often get discouraged after unsuccessfully bidding on a number of transactions. On [SecondaryLink](#), you can see the number of buyers and the Setter Liquidity Rating™ for individual funds or a portfolio - Funds with a rating of Good, Very Good or Excellent generally have more than 20 potential buyers, with some having over 80.

Contact active intermediaries – There are over 100 competing intermediaries that you can connect with on [SecondaryLink](#). Setter Capital, for instance, can give you a realistic sense of the market for your shortlisted funds, enabling you to quickly ramp up your deal flow and helping you develop your buying strategy.

Alert the GP to your interest – Contact the GPs of your shortlisted funds to let them know you are an interested buyer. Managers often maintain lists of potential buyers which they forward to sellers as secondaries arise.

Re-use your unsuccessful bids - If you have priced out a certain fund but did not manage to transact, reach out to your deal flow channels (GPs, intermediaries, etc.) to let them know you are current on that fund along with size and price particulars. This will increase your chance of recycling a recent bid while it is still current.

Leverage primary dollars - If you are considering investing primary capital, see if the GP can find you a secondary.

Confirm your due diligence via the GP, DiligenceLink and other channels - Make sure you speak to the fund manager before signing a binding agreement with the seller in order to ensure that there is no bad news of which you are unaware (portfolio write-downs, team changes, etc.). A call with the manager can also help fill in the blanks on gaps in the quarterly financials, such as timing of exits etc. Do additional diligence checks through your own channels or through www.DiligenceLink.com (see: [How do I connect with diligence collaborators of a certain fund?](#)).

The Basics of Selling

Opportunistic selling can be an effective way to manage your portfolio by transferring the assets to buyers with a lower cost of capital or a more optimistic view. Sellers should keep the following points in mind to avoid leaving value on the table, missing an opportunity to leverage an attractive asset, or unnecessarily upsetting GP relationships.

Below are a few basic steps for selling in the secondary market:

Remember it's a seller's market - With NAVs and distributions trending higher, and a record amount of capital available for deployment, buyers are very motivated to put money to work. Unless there are special circumstances, a seller should unabashedly seek out multiple competing offers. Go to www.SecondaryLink.com/buyers to privately connect with buyers and to see how many potential buyers there are for a given fund.

Understand the saleability of your funds - This will help you anticipate your bargaining power and whether a broad auction or a more targeted/negotiated approach makes sense. On SecondaryLink, you can see the Setter Liquidity Rating™ for individual funds or a portfolio - Funds with a rating of Good, Very Good or Excellent generally have more than 20 potential buyers, with some having over 80.

Do not tie yourself up - There is often no reason to award exclusivity until you are satisfied you are getting the best firm bid. There are many buyers clamouring for assets and pricing can often increase dramatically over the course of a sale process.

Contact active intermediaries - There are over 100 agents that you can connect with on SecondaryLink. Setter Capital, for instance, can help you get a feel for the likely pricing / supply for the assets, often without having to test the market, assuring your anonymity is preserved.

Consider whether to sell as a package or individually - Beyond the efficiency of selling funds as a package, you may also improve the overall price. If you have some highly sought after funds (i.e. Liquidity Rating of Good+), you may find that coupling them with less liquid funds improves the overall price or number of interested buyers. Sellers often sell their “jewels” and miss opportunities to strategically couple them with less saleable funds.

Consider alerting the GP regarding your interest to sell - Managers often maintain lists of potential bidders and will ultimately need to approve the buyer. However, to avoid straining the GP-LP relationship, sellers often first test the market to make sure pricing is at an acceptable level before they let the manager know of their desire to sell.

Confirm your due diligence via the GP, DiligenceLink and other channels - Make sure you speak to the fund manager shortly before signing a binding agreement in order to ensure that there is no good news of which you are unaware (portfolio write-ups, liquidity events, etc.) and that the chosen buyer will receive transfer approval. Do additional diligence checks through your own channels or through www.DiligenceLink.com (see: [How do I connect with diligence collaborators of a certain fund?](#)). Despite the introduction of FAS, there is still considerable information asymmetry and NAVs often don't equate to true value.