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Secondaries Posturing

by **staff writer** on 7 April 2014 in **Commentary, Guest commentary**

Newbury Partners closed its Fund III last week, breaking its hard cap of $1.1 billion. Newbury Partners chief executive officer Richard Lichter expands on the market backdrop for his firm's fundraising success and the importance of staying small.

I saw some data saying that fundraising is pretty robust in the first quarter, but I'm not sure the overall numbers for fundraising tell the real tale of what's going on; I think there are fewer investors and they are making bigger commitments.

This is an opportunity, because if big [LPs] are making fewer but bigger commitments, what do they do with their older funds? They can let them run down or they can sell them. Given that investors are generally making fewer but larger commitments, there does appear to be a bias against the smaller funds.

The middle ground is what's really gotten squeezed. Groups in another part of the market, the billion-dollar funds, are squeezed in the sense that if you can raise a billion dollars then you can raise more than a billion dollars. Most of those groups have done that. A few years ago, there used to be many more groups in our space; those groups raised more money and they moved on to the bigger leagues. So if you look at the landscape, there are really very few groups in our space who are small enough that they can do small transactions but big enough that they can source everywhere.

The problem in general with the secondaries business is that there's nothing you can do to add value once you close a transaction, not us or anyone else. You become a limited partner, unlike on the primary side. On the primary side, you can buy something in an auction and you may have a better sense of how to manage the asset, a different strategy or a different exit and add value that way.
So for secondaries, the key is how you buy it because once you pay for it, your return is locked in. The more your pay for it, the lower your return. It's a mathematical certainty.

The key is your posturing, where you're positioned; the size of a firm determines its transactions. If you're a very large fund, you have got to do large deals and large deals tend to have intermediaries; they tend to be auction-based, they tend not to involve services, it's just about price. If you're on the smaller side, there are fewer intermediaries and price is important but not the only factor. That's why Newbury has tried to stay small. And I think going forward, those lines of differentiation become even deeper. Groups that really don't have any differentiation go out of business and we've seen several examples of that in the secondaries business recently.