

## New IT platform seeks to unlock private equity

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### Brad Hatch

Private equity fund investors, known as limited partners (LPs), may soon find it easier to trade their interests, as London-based firm Secondcap aims to “unlock the liquidity shackle” of the secondary private equity market.

The firm’s online platform, called SecondaryNet, matches interested buyers and sellers of interests in private equity funds – a market valued at about \$20 billion a year that’s still in its infancy according to the clever crew that launched its innovative match-making system earlier this year.

The company is now on a global roadshow to market its system and build critical mass of users.

“There are lot of people who are looking at the secondary market, who are participating in it, who are saying, there needs to be a better way to transact here,” Secondcap’s chief operating officer, Nirosh Wijewardene, told *Financial Review DealBook* in Sydney last month.

“The market has the elements of a cottage industry,” he says, describing the current way interests are traded as a “cumbersome, secretive process”.

SecondaryNet pitches itself as an independent, efficient and cost-effective way for investors and their advisers to interact, manage and close a deal online.

“It’s almost creating a social network of limited partners so that dynamically they control the information about themselves on the platform so that general partners get this value-added data on limited partners globally that’s dynamically input and up-to-date,” Wijewardene says.

The platform, run by a team of experienced hands including former London Stock Exchange director Martin Graham all of whom are hellbent on making market mechanisms more efficient, provides a low-cost market place for investors.

There’s also the added benefit to general partners (GPs), which run funds, because increased liquidity should in theory make it easier to raise funds from an increased LP investor base.

“Once we’ve built a network of limited partners globally, then you could use this platform for primary fund raising,” Wijewardene says.

“We think that by providing them with that network, where all buyers and sellers can meet, and a process that is best practice that can work through the transaction – then we think that we can unlock that potential and make this market go from a \$20 billion market to a \$100 billion market.

“At some point in time you will see spreads coming in, far easier turnover .... GPs have come to realise that the market is headed that way; we’ve got to enable our limited partners to find liquidity. Five years ago they wouldn’t have done that; they would have been horrified to know that there was an easy exit.”

The platform, which has about 50 buyers at present and aims to have 120 by the second quarter of the year, tackles two chief impediments to efficient dealing in secondary interests: deal origination and unlocking a network of buyers sitting on dry powder.

There’s also scope to tap into secondary trading activity in real estate and infrastructure funds.

With a number of interested parties – such as pension funds and family offices – circling the private equity secondary market, relationship management has never been more important.

“The idea is to be the largest network of limited partners, GPs, advisers,” Secondcap chief executive, François Gamblin, previously a partner at Fondinvest Capital, says.

“Say you are an Australian pension fund and say you wanted to sell some of your legacy funds for instance, the difficulty is to identify who are the best buyers, how you are going to find the best price, and to make sure you are in a position to be able to close the deal in a fast way compared to the current market.”



Almost a social network: CEO François Gamblin, right, and COO Nirosh Wijewardene. **Photo: Louie Douvis**

SecondaryNet is “faster, more professional and cheaper”, Gamblin says.

SecondaryNet charges buyers a subscription fee to see deal flow. There’s an algorithm working in the background that matches buyers with sellers. A small fee is charged on successful deals based on the agreed cash price.

“We use a maker taker model, whereby anybody who provides liquidity to the platform has a share of the revenue that we take from the buyers, who are the ones that are removing the liquidity,” says Wijewardene.

Both he and Gamblin insist that SecondaryNet is not competition for investment banks, describing it rather as a tool that would be useful for the banks, allowing them to conduct transactions more efficiently and effectively via its automated transaction process.

The system has a strong focus on confidentiality – if this feature was not central to everything about it, parties would be likely to come under much stress. A GP must pre-approve an LP looking to purchase their fund and what information is disclosed for due diligence purposes.

Wijewardene says: “At the moment there is a lot of emails flowing back and forward, phone calls, it can lead to a great deal of execution risk. A lot of deals go down because people aren’t looking at the right documents at the right time ... The platform really mitigates those execution risks.”

The secondary market, perceived as an exit of last resort of investors who are otherwise committed to funds for a number of years, is expected to surge in Australia in coming years.

“If a limited partner cannot wait such a long time then the alternative for him is to get on the secondary market, sell the interest to the buyer,” Gamblin says, flagging an expected up-tick in secondary market trading.

Secondary trading is more much common European and North American markets.

With the initial public offering market being largely closed in Australia, as evidenced by lingerie retailer Bras N Things’ IPO being put on hold this week due to poor retail market conditions, an alternative exit mechanism such as SecondaryNet has strong appeal.

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