Research & Data

Prices rebound but ‘uncertainty discount’ to remain

Buyers will value a 'safe pair of hands' over pure return potential until the market stabilises further, according to Elm Capital.

By **Rod James** - 42 mins ago

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Pricing on the secondaries market is recovering from lows last observed in 2012, according to a report by Elm Capital.

The dearth of deals in market, the stabilisation of valuations in the second quarter and large amounts of dry powder are having a positive impact on pricing, the advisory firm noted in a September private markets update seen by *Secondaries Investor*.

An “uncertainty discount” is likely to remain for some managers, Elm noted.

“A safe pair of hands will continue to trump the pure promise of higher returns, as we believe LPs will continue to focus on quality managers,” the advisor noted. “[This] will be reflected in the secondary market, with stronger pricing for managers with a proven track record during the last crisis.”

Newer vintages continue to price well due to their higher proportion of uncalled capital. As was the case after the previous financial crisis, non-traditional buyers are making available their lists of core managers and sought-after newer funds “to make a market for sellers that anticipate challenges in funding capital calls and are seeking near-term liquidity”, Elm noted.

The proportion of tail-end funds sold in deals Elm advised on dropped to 27 percent in the first half of the year, from 68 percent in the second half of last year. Buyers of tail-end stakes tend to hold them for a short time period and sell after a liquidity event, a strategy negatively impacted by the slowdown in exit activity.

"It is not a long-term trend," Elm chief executive Etienne Deshormes told *Secondaries Investor*. "On the contrary, we expect that LPs will increasingly use the secondary market to optimise their portfolio construction, and we expect tail end sales to become more regular [as net asset values stabilise further]".

The median high bid for buyout funds in the first six months of the year was 87 percent of NAV, down from 94 percent in the second half of last year and the lowest level since the first half of 2012, Elm noted.

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