Private Equity - France

Private Equity is an important asset class offering above average performance, portfolio rebalancing and liquidity, thanks to an active secondary market. It is an area in which expert legal advice is essential at all levels, from deal execution to fund formation and LP transfers. The secondary market volume surpassed $20bn in 2010, making it the busiest year on record, and already $14bn in the first half of 2011.To find out about the current private equity secondary market in Europe, *Lawyer Monthly* speaks to Francois Roux, founder and Managing Partner of Roux Capital, an independent adviser exclusively focused on Primary and Secondary Private Equity assignments.

The Firm's typical clients include pension funds, banks, insurance companies and family offices. In Primary assignments, Roux Capital acts as a placement agent raising Private Equity funds from active institutional and individual investors.

In Secondary assignments, the Firm advises investors seeking liquidity for their limited partnership interests, and fund managers seeking to restructure their existing investor base. The assignments bear on funds of any size, maturity, structure and geography, but the typical secondary transactions range from €10mn to €300mn in size. The Firm can manage disposals in a fund, a portfolio of funds, or a portfolio of direct investments. Counterparties to the transfers are global active secondary investors.

Roux Capital covers all types of funds on a worldwide basis in buyouts, venture capital, expansion capital, real estate, infrastructure, energy, special situations, mezzanine, and specialized funds.

Q Have you witnessed an influx of buyers on the secondary market?

Traditional secondary buyers are cash rich: secondary funds have raised in excess of $20bn in 2009 and $10bn in 2010, and are currently successfully raising approximately $25bn.

In addition, we have witnessed an influx of buyers from the primary market, mainly public and private pension funds, insurance companies and asset managers. The usual benefits associated with purchasing secondary fund stakes, mainly mitigation of the J-curve effect, discount to NAV and visibility on asset quality, have fuelled a significant secondary overhang of investible capital, supporting predictions of sustained deal flow for 2011 and 2012.

Q How do you think the secondary industry will develop over the course of the next few years?

We witnessed a healthy alignment of buyer and seller expectations early in 2010, which reignited the secondary market. Its volume surpassed $20bn in 2010, making it the busiest year on record, and already $14bn in the first half of 2011. Up until June 2011, we were back to market conditions prevailing before the Lehman bankruptcy, with strategic sellers tapping prices they would not even have dreamt of a year ago. The public equity market rally had boosted investor confidence, prices, and

eventually a significant secondary overhang.

But things changed slightly in the course of summer 2011. The current concern is that the market may have heated up, that we reached a valuation peak on June 30, 2011, and that private equity assets need be re-priced alongside public equities to equally reflect possible delays and uncertainties in global economic recovery.

In addition, dry powder has been deployed rapidly in the last 18 months, and there is clearly less pressure on secondary buyers to deploy capital now. Some may want to pause and test whether their valuation models will be validated in the post-summer economic climate. Some still see an important deal flow in the pipeline, and some forecast a sustained flow of sellers with significantly fewer buyers and lower prices. As a consequence, we have already seen discounts to NAV soar again, and expect this to last all of 2011 and 2012. This may in turn negatively impact transaction volumes, as deals may take longer to close at wider spreads.

Q **Who are the sellers?**

The most obvious secondary sellers are banks and insurance companies for Basel III and Solvency II reasons respectively. However, regulation is not their only motivation: some have had problems of their own, such as financial difficulties and undercapitalization which motivated non-core assets disposal programs.

Overall, Private Equity has never mobilized important capital and human resources for banks and insurance companies, and has appeared less strategic over time. Banks, in particular in Europe, were once again at the epicentre of the summer 2011 market turmoil. This has stressed again their need to dispose of their private equity holdings.

Can you describe your role in fund restructurings?

Our fund restructuring solutions take the form of fund downsizing, transfer, extension or recapitalization, top-up fund, annex fund, bridge fund, or spin-off. They allow the replacement of existing Limited Partners and the injection of additional capital, while keeping the existing GP in place. They induce financial and governance rebalancing and substantial renegotiation of partnership agreement and management contracts. In an increasingly Darwinian market, in which primary LPs reduce the number of GP relationships and shun a large number of good quality funds, Roux Capital supports the idea that secondary money can become available to GPs in the form of primary commitments through restructuring solutions such as fund extensions and transfers, and top-up and annex funds.

We are supportive of such solutions and see them gaining momentum. We generally identify restructuring transactions through GPs who are smart enough to address liquidity concerns before they become critical and public. Those who cannot do so promptly are meant to simply disappear. **LM**

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