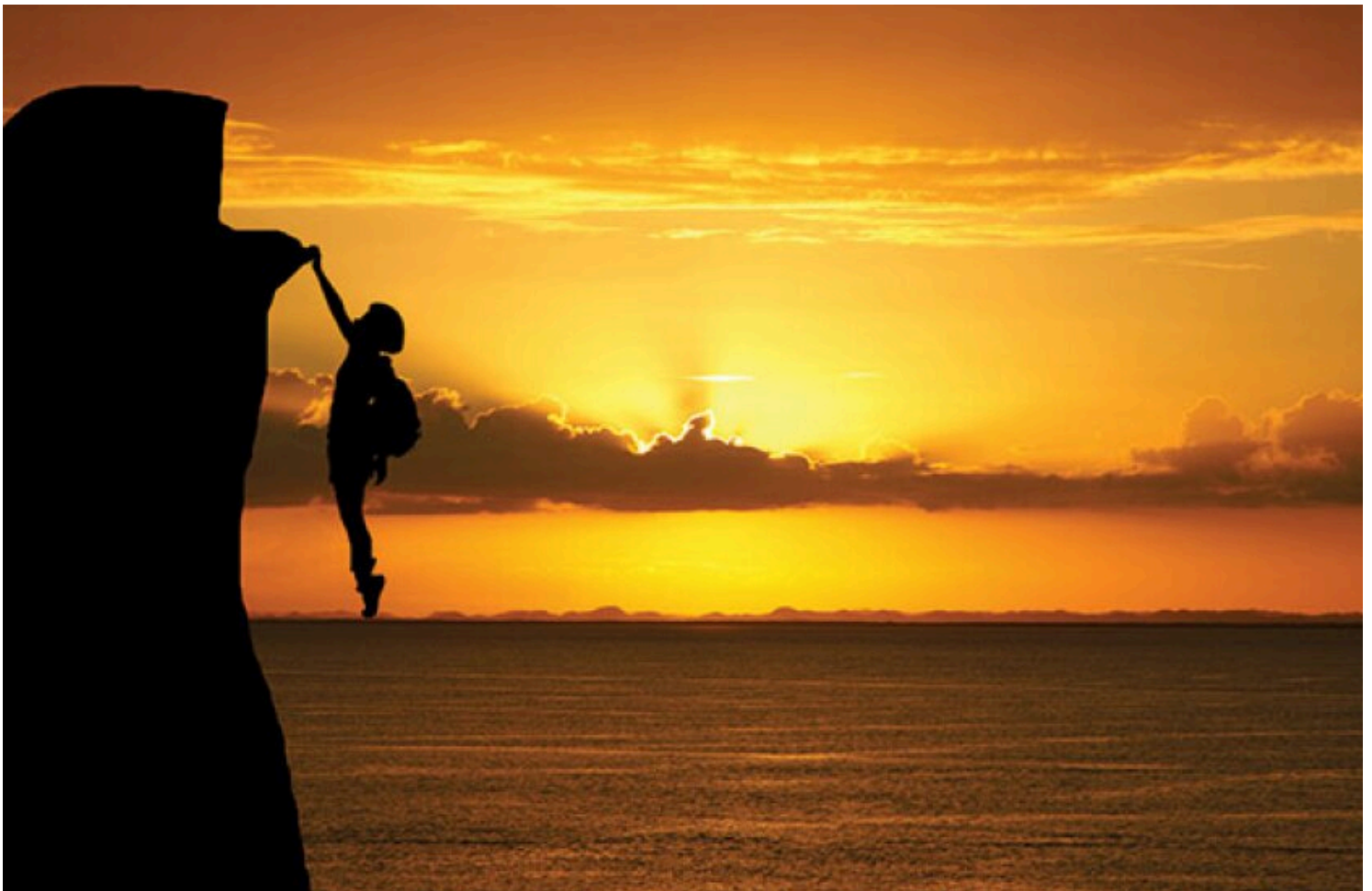


## Asia's secondary markets: key trends in GP-led transactions

By *Divya Thakur* December 17, 2024



**The continued development of the general partner-led private equity fund market is expected to drive further growth and innovation for Asia's secondaries landscape**

The secondary market in Asia has evolved significantly over the last decade and is poised to emerge as a dynamic force in the global financial landscape. This market, where investors sell their stakes in private equity funds to new investors or where private equity firms arrange the sale of company stakes to new funds, has seen significant growth and evolution over the past decade. This article takes a look at key trends shaping this market, focusing on the rise of general partner (GP)-led transactions, market maturation, pricing dynamics, exit strategies, and future prospects.

## A maturing market

The Asian secondary market has transitioned from a landscape dominated by distressed, end-of-life assets to a more robust and vibrant ecosystem. Characterised by increasing deal volume and a relative reduction in volatility, the market offers a compelling backdrop for secondary transactions. Today the sellers in this market are motivated by various factors, including portfolio management and liquidity needs. In addition, many Asian countries have an ecosystem of brokers, legal and tax advisers and custodian banks that can support a secondary transaction. As the market matures, best practices and precedents are being established, further enhancing its efficiency and attractiveness.

## The rise of GP-led transactions

GP-led transactions have been gaining significant interest in the Asian secondary market. These transactions are increasingly being used to allow high-quality managers to optimise the value of their prime assets. Initially driven by distressed situations, the GP-led market has expanded to encompass a diverse range of deal structures, including single-asset deals, multi-asset transactions, strip sales, and tender offers. This diversification reflects the growing sophistication and adaptability of the market. Furthermore, the successful completion of one GP-led transaction is likely to pave the way for subsequent transactions, as it aids in establishing a shared understanding of due diligence procedures, risk profiles, timelines, and the overall workload involved. This positive feedback loop is expected to continue to contribute to the growth of GP-led activity in the region.

## Pricing expectations and execution risk

The pricing dynamics in the secondary market are influenced by various factors, including market demand, regulatory changes, and economic conditions. Pricing expectations play a crucial role in deal execution risk. The complexity of GP-led transactions, often involving multiple participants, can amplify execution risk. However, as the market matures and participants gain experience, the process will hopefully become more streamlined, mitigating some of these risks. The development of infrastructure and systems specifically designed for executing GP-led transactions in Asia has also facilitated smoother deal execution.

## Exit routes and opportunities

The GP-led market offers a viable exit route for investments, complementing traditional options such as IPOs, strategic sales, and financial sales. While GP-led exits can be complex and subject to intense scrutiny during due diligence and asset/manager assessment, the increasing prevalence of these transactions has led to a more streamlined process. The implementation of dedicated systems for executing these transactions, both for global assets and those focused solely on the Asian market, continue to enhance the efficiency of this exit route.

## Building relationships and transitioning to primary investments

Secondary transactions can serve as a valuable platform for sponsors to cultivate relationships with new limited partners (LPs) in the region. These initial interactions can potentially evolve into primary relationships, fostering long-term partnerships and investment opportunities.

## Regulatory landscape

While the regulatory framework for secondaries in Asia has not been discussed as much as in the US, the global nature of the industry means that regulations in more mature markets, such as Europe and the US, provide a general framework for regions like Asia. This cross-border influence helps to shape best practices and ensure a degree of regulatory consistency. For instance, the Securities and Exchange Commission's involvement in defining and regulating secondary market transactions highlighted the importance of compliance and transparency globally, across the industry.

## Future outlook

The evolving landscape for secondary transactions in Asia presents significant opportunities for investors. The continued development of the GP-led market, particularly in the single-asset segment, is expected to drive further growth and innovation. The potential for "continuation vehicles of continuation vehicles" highlights the dynamic nature of the market and its capacity for adaptation.

The decline in interest rates, coupled with increasing familiarity among market participants with the Asian secondaries environment, is likely to fuel an opportunistic approach to investing in the region. Investors seeking favourable returns are increasingly turning to Asia, recognising the potential for growth and value creation in its dynamic secondary market. This value proposition, combined with the

potential for building lasting relationships, makes the Asian secondary market a compelling destination for both established and emerging investors.

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