

KEYNOTE INTERVIEW

APAC's untapped secondaries opportunity



*The supply/demand imbalance in Asia-Pacific suggests significant growth potential in its secondaries market, say **Bastian Wolff** and **Christian Keiber**, co-founders of Aquilius Investment Partners*

Q What has private markets growth in Asia-Pacific looked like over the past few years?

Bastian Wolff: Private markets have experienced transformational growth over the past two decades and are today an integral part of every institutional investor's portfolio. In Asia-Pacific, private markets assets under management have increased sevenfold over the past decade, according to data from Preqin, surpassing growth in other regions around the world. Preqin data also shows that Asia-Pacific now accounts for 30 percent of global AUM, making it the second-largest private capital market behind North America.

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Christian Keiber: Despite holding such a large percentage of private markets AUM, the amount of secondaries capital allocated to the region is lagging. We estimate less than 5 percent of global secondaries dry powder is allocated to Asia-Pacific, representing a significant supply/demand imbalance relative to the overall size of its private markets.

Q What are the reasons for this lack of secondaries capital in Asia-Pacific?

CK: The APAC secondaries market is fundamentally complex and poses a far greater challenge to navigate than that of Europe and the US. First, it is largely disintermediated: the majority of secondaries transactions take place without a broker. This is very different from the US and Europe, where most deals are competitive processes run by large investment banks. Buyers of Asia-Pacific secondaries need to work from the ground up to source transactions, which is a time- and resource-intensive process. This requires a long-term commitment to the region – something many global players struggle with because they can see better economies of scale in their home markets.

BW: The complexity of Asia-Pacific extends to the underwriting process, as information is less readily available. Closing information gaps requires more intensive effort compared with the desktop-orientated approach seen in other parts of the world. A bottom-up approach is crucial to fully understand the assets and markets you are buying into. Here in APAC, you need to spend a lot more calories per dollar invested to be successful.

Q What has been driving Asian secondaries dealflow this year?

BW: Rebalancing across institutional investors' portfolios is a major driver of secondaries transactions today. Many investors are actively making decisions about where they want to invest their capital in the future, and there is a noticeable trend of investors redirecting their focus back to their home markets. This is because they understand these markets better and believe they offer better opportunities and safer returns. Such trends are highly supportive of transaction volumes.

CK: The last few years have been fraught with major fluctuations across the market. We went from a pandemic-induced standstill with few assets being sold, to an environment of high inflation, high interest rates and geopolitical uncertainty. As a result, realisations have slowed down considerably because underlying assets are taking longer to sell, creating a mismatch between distributions and forward commitments for LPs. This has and will continue to fuel the market, presenting a fertile breeding ground for attractively priced secondaries transactions.

Q Why is secondaries so important to APAC?

BW: There is a tendency to think about secondaries as a specific type of transaction, but the term actually encompasses a range of solutions that cater to the needs of private market participants.

We like to think of secondaries transactions as being a lubricant to help private markets operate more efficiently. They enable LPs to exit private market assets earlier than the typical 10-year fund life, and assist GPs in solving specific headaches or liquidity requirements across their portfolios. These products address a broad set of requirements and opportunities, and there is a real need for this toolkit in Asia.

CK: When you make a private market investment, it typically comes with a long-term investment horizon. Things can and do change along the way: LPs may have developed certain strategies five years ago, but these could have been altered since then. The same applies for GPs, who may have had certain business plans for assets when they were acquired that have evolved over time. Investment considerations change – this is especially true in the fast-moving and complex private markets of APAC. As a provider of secondaries, it is important to help investors and managers address these changes through flexible, tailored liquidity solutions.

Q Do GP-leds comprise a significant proportion of the APAC secondaries market?

CK: In the global context, GP-leds represent around half of the current secondaries market. Their growing prevalence in the US and Europe has created a positive feedback loop that is driving more activity in Asia-Pacific.

Although GP-leds comprise considerably less than half of the secondaries market in APAC, we expect this to change over time. These transactions are still considered new, so even though adoption is increasing, many GPs remain relatively unfamiliar with the nature of GP-leds. We believe it's important to raise awareness in this market, and we spend a lot of time working proactively with GPs to take them through the pros and cons of GP-leds for their respective firms.

Q What are Asia-Pacific GPs looking for from the secondaries market?

BW: GPs in Asia-Pacific grapple with many challenges and constraints in their existing funds, including a slow exit environment and differing needs from existing LPs. Some LPs wish to retain their investments, while others need liquidity – this requires customised solutions from the secondaries market. However, there is currently a real lack of on-the-ground expertise and dedicated resources across the Asia-Pacific secondaries landscape. Very few have the capability to operate in the region.

There is also a genuine need for more secondaries capital to meet the wide range of investors' needs. This capital should not only take the form of LP portfolio sales, but should also be available to support fund recapitalisations, preferred equity capitalisations, GP spin-offs and other structured solutions. Currently, there is a lack of these comprehensive solutions available to Asia-Pacific GPs.

Q What makes Asia-Pacific secondaries an attractive asset class for investors?

BW: Secondaries are a great way for investors to gain exposure to the region at much lower risk. The asset class provides very diversified access to growth opportunities in APAC through large pools of assets across different strategies, geographies and sectors. Moreover, given the high level of pre-specification across secondaries portfolios, you generally know what you are buying, which greatly minimises blind-pool risk.

CK: The benefit of hindsight when investing in asset portfolios at a much later stage in their lifecycle contributes to an accelerated cashflow profile and faster distributions back to LPs. Secondaries serve as a highly differentiated way to invest that has historically achieved compelling long-term returns on a consistent basis. ■



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