The Italian Secondaries Market

Interview with Giuseppe Salamone, Associate Investment Director

Posted: May 2011

While macroeconomic fears cast a shadow over much of southern Europe, several developing factors mean that the private equity secondaries market in Italy is showing real signs of promise for the future. Greenpark's Giuseppe Salamone gives his insight into the market.

1. When you think of Italy, private equity secondaries is not the first thing that comes to mind. Is the market significantly less developed than other European markets?

   Historically, the secondaries market has been small in Italy, but this is beginning to change, for a number of reasons. What we saw towards the end of last year – increasing deal flow and more participants looking at secondaries as a way of finding liquidity – is being confirmed. Deal flow has historically been pretty lumpy, but we are seeing a sustained increase this year.

2. In such an underdeveloped market, how do you go about accessing deal flow – surely this is a market for local players?

   There are no real local secondaries players in the country – there are one or two Italian funds that do smaller secondaries but most deals involve the larger European firms like ourselves. Though secondaries have actually been around for a while in Italy, it is not well intermediated, so you need to be on the ground talking to people. A key element to working in the country is that you must be active in the market. We know investors and general partners well, so we tend to receive direct approaches. We have been transacting in the market since 2003 and now know almost all the GPs very well. This is a great source of deal flow.

   Another factor is that you need good knowledge of the legal, tax and regulatory environment. If you have this, it speeds the execution process and allows you to guide the transaction process and it is something GPs really value.

3. What is driving the increase in deal flow you are seeing at the moment?

   There are significant regulatory drivers that are making Italy a larger market for private equity secondaries. First, the increase in regulation of banks – such as new capital requirements – have made it more expensive for them to hold private equity assets, which is creating deal flow. Historically, the most active investors in the asset class have been the banks and big endowments so we have been transacting with these types of sellers.

   Also there are pensions funds, which in Italy need to be relatively liquid and therefore have historically invested in more liquid assets but are now the source of some deal flow. Finally, private individuals continue to look for liquidity, or are changing their strategy, which is boosting volumes.

4. It sounds like there are a lot of drivers for institutions to sell private equity positions. This will surely hurt the asset class in the longer term?

We expect the increase in vendors to be offset by a number of factors. First, we are seeing a continued and increasing demand for private equity from insurance companies. Until a few years ago regulatory issues meant it was difficult for insurers to invest in private equity in Italy, but this has now changed. We expect this to continue to drive demand in the long term.

Another factor is the launch of a new €1.2bn private equity fund by the Italian government last year. Half of this will be invested in businesses, and half in funds. Considering investment in mid-market primary funds in Italy last year totalled just €900m, according to research from placement agent Acanthus Advisers, this is a big injection of capital into the market, and will provide a significant boost to fundraising and investment.

The market in the country has also been opening up to foreign institutions, and GPs have been very good at attracting investors from the US and wider Europe.

Finally, perceptions around secondaries are changing rapidly. There used to be a stigma attached to having positions in your fund change hands for GPs, while some LPs saw secondaries funds as vulture funds trying to squeeze those in need of liquidity. This is no longer the case. Secondaries are becoming more and more accepted by LPs and by GPs, who see it as a good way to manage and expand the investor base, access new relationships and build networks.

We try to help the GPs we work with in many ways – introducing them to our own LPs, offering them the opportunity to speak at our investor days. We try to help people talk to each other.

5. How do you see the outlook for private equity in Italy over the coming years?

When in Italy lately, people have more and more been talking about exits and an increasing number of deals. This is very positive for the asset class. An improvement in the exit market means the return of capital to LPs, which in turn will start to bring more firms out on to the fundraising road. It will still be difficult to fundraise, so you will need a good track record and strong LP relationships, but there are signs of a sustained improvement. This will be good for everyone.

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