

SECONDARIES AS AN EXIT FOR INVESTORS

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With the development in the private equity industry, selling shares in investment funds should become commonplace

One of the main concerns of private equity fund managers is the exit strategy. It is this concern that makes the manager, when investing in a new company, already consider the future alternatives to transform the recently acquired shares into money to be distributed to the investors, according to a calendar established by the fund's documentation. Such alternatives may include, for instance, the sale of interest held in invested companies through public offerings, regardless of whether they are initial public offerings (IPOs) or not, or through private selling to strategic investors.

The subject we will cover in this article, despite being similar to some extent to the matter of exit strategies, cannot be mistaken for it due to one fundamental difference: in operations performed in private equity secondaries, the concern is not that of the manager regarding the investments made by the fund, but rather that of the investors regarding their investments in the fund itself.

Thus, the investor may wish to dispose of shares in the fund in order to obtain liquidity to fulfill other obligations, or to implement an investment diversification strategy.

Another motivation may be an investor's difficulty in fulfilling already-scheduled commitments to contribute further resources to the fund (capital calls), so that the fund may follow through with its investment plan.

In some other cases, there may also be some dissatisfaction by the investor as to the fund manager's work or the respective investment strategy's implementation, an event where the investor may wish to leave the fund and seek other investment alternatives.

From the buyer's point of view, purchasing shares in already existing private equity funds may be interesting when, for example, this is done closer to the exit phase and subsequent distribution of the resources to the investors, an event wherein return on the investment can enjoy a positive effect.

In the past, the private equity secondary market, including outside Brazil, was very small and largely viewed as trading in distressed assets. In other words, transactions with private equity assets were almost always done in the context of restructuring or recovery by the seller or the invested companies. The main reason for selling was often an investor's

inability to provide the capital necessary to operate the fund, compelling him to sell his share in a position of inferiority, which usually led to a reduction in the price obtained in the sale.

With the arrival of consultants and specialized funds in the secondary market, the picture changed substantially and, today, according to information from participants in the international market, many transactions are due to a search for liquidity or a strategic decision regarding the investor's investment portfolio.

We believe that this type of negotiation, which is already commonplace in more sophisticated markets, will gain importance in Brazil if the number of funds and investors continues to grow at the current speed.
