Secondaries Investor

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NEWS & ANALYSIS

Baird's Duksin: 40 Act funds make up 15-20% of secondaries market demand

While '40 Act funds haven't yet moved market pricing in GP-led deals, these evergreen funds are 'certainly are participating and creating syndicate demand,' Baird's GP solutions group co-head Jeremy Duksin tells Secondaries Investor.

The growing pool of buyside capital from evergreen funds has started to shape new deal dynamics in the secondaries market.

Even in the GP-led market – an area that's typically less favourable for '40 Act funds due to the lack of diversification benefits compared with LP-leds – evergreen vehicles are starting to play a meaningful role, according to Jeremy Duksin, managing director and co-head of global GP solutions group at Baird.

In conversation with Secondaries Investor, Duksin discusses the rise in deal activity, the impact of growing buyside capital from evergreen funds and the influence of new market entrants that are increasingly offering a one-stop-shop solution for private market sponsors.

This conversation has been lightly edited for clarity and brevity.

The secondaries market has been expanding at an unprecedented pace. How has that been reflected in Baird's deal activity this year?
We completed five deals just over the last eight weeks or so of varying sizes and characteristics, reflecting the increasing volume, velocity and diversity in both deal types and buyers participating in this market. We are on track to approach $10 billion in continuation vehicle advisory mandates this year since we began completing CV transactions in 2024.

Jeremy Duksin

What impact has the rise of '40 Act funds had so far on the secondaries market and how do you think about this from an advisory perspective?
The vast majority of ['40 Act funds] that exist today appeared within the last two years as brand new products. Many of those are scaling well into the billions in a very short period of time. By our estimation, the demand dollars in our market emanating from these types of products have gone from negligible to upwards of 15-20 percent of the whole market's demand pool within just a couple of years.

The return and duration characteristics that those pools are seeking are a little bit different, which enables us to take on and market deals with slightly different features, knowing that this new pool of demand is out there and ready to deploy.

What types of deals are most attractive for '40 Act funds?
Generally, ['40 Act] products exist to supplement flagship secondary programmes or, in some instances, broader flagship PE programmes. In that respect, they are more often than not participating in the same deals that these traditional PE funds are doing. But in some instances, they are doing their own deals, and in those cases we see a slightly different set of criteria.

What ['40 Act funds] are generally seeking is stable annual compounding of equity returns in the low- to mid-teens on average across their portfolios, [along with] visibility on cash yield and/or a steady pace of predictable liquidity to meet potential outflows and redemptions… This is where it [is similar] in many respects to asset classes like infrastructure and credit.

How do '40 Act funds approach LP-led versus GP-led opportunities?
It is most natural for ['40 Act funds] to be hunting for LP books… But we understand anecdotally that there has been some distortion of pricing to the upside for sellers as a result of '40 Act funds participating in that space.

'40 Act funds are also participating in GP-led transactions. They are doing so with slightly smaller bite sizes in order to still achieve diversification, but they do recognise the alpha opportunity in participating in deals that involve trophy assets that are on a path to continue appreciating over time, as well as GP-leds where the underlying assets have visibility on regular cash distributions through dividends, recaps or near-term exits among a GP-led portfolio.

We have yet to see '40 Act funds start to move the market from a pricing perspective for GP-leds because most GP-leds are a bit too large for them to set the price, but they certainly are participating and creating syndicate demand.

Traditional PE firms have been launching secondaries units, adding to the growing pool of buyside capital in the market. How does that affect deal dynamics in the GP-led space?

We are expecting to see an uptick in – if not an explosion of – situations where a secondary programme sitting within a larger multi-strategy private asset manager both buys a direct stake in a company and anchors a CV for the rest of that company for an incumbent sponsor. [These managers'] highly credible flagship buyout and growth-orientated direct investment programmes are now sitting alongside scaling secondary programmes. They are starting to offer incumbent sponsors the ability to: 'sell 50 percent of a company [to us] and move the other half of the company into a CV [backed by us]'.

We haven't seen many deals in the past with that one-stop shop solution because the ability for the secondaries market to do that has frankly not existed until very recently. Now, we are having regular real-time dialogue on multiple situations where we expect these deals to start to pop into the headlines relatively soon and with increased frequency.