LPs more accepting of restructurings

by Marine Cole on 21 JULY 2015 in News

GP-led restructurings are becoming more common in the private equity world, and limited partners are increasingly accepting of the practice, according to Luca Salvato, investment partner with Coller Capital.

In Coller's most recent global private equity barometer, which was released earlier this summer, more than half, or 56 percent of LPs, said that they have remained invested in a fund's reset terms when confronted by a GP-led restructuring.

Only 21 percent of LPs said they had not been involved in a successful fund restructuring.

"This was a bit surprising to us," Salvato said at the Pension Bridge's Private Equity Exclusive conference in Chicago on Monday. "LPs have a more favourable view of restructurings than they did 12 or 18 months ago. They are becoming more pragmatic."

In Coller's barometer from June 2014, LPs, especially pension funds, were much colder to fund restructuring proposals. Last year, less than half, or 46 percent, of private equity investors said they would agree, even in principle, to reset GP terms and conditions for funds unlikely to achieve their referred returns.

Among the different types of LPs, pension funds and endowments were the most resistant to the idea. Yet, despite GP-led restructurings happening at a frequent pace, especially in the US, they still represent a tiny fraction of the secondaries market, while transfers of LP fund stakes continue to represent the vast majority of the market. There was about $4 billion to $5 billion-worth of restructurings in 2014, and that figure is on track to be similar this year, or about roughly 10 percent of the total secondaries market for private equity funds, Salvato said.

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