Finding beauty in complexity

Headway Capital Partners' Christiaan de Lint says his firm, with its knack for direct secondaries, relishes 'handling deals that other secondaries buyers don't like'.

By **Adam Le**

Headway Capital Partners, a London-based specialty secondaries firm focused on direct secondaries, formally opened its Boston office in November – its first overseas presence. Christiaan de Lint, a founding partner, tells Secondaries Investor about his firm's approach to secondaries and preference for complicated and less obvious deals.

Christiaan de Lint

How does North America fit into your deal pipeline and how many deals have you made there over the last 12 months? What made them interesting?

Christiaan de Lint: North America has always been a fundamental part of our strategy. Close to 40 percent of our underlying investments to date are in North America; in the last 12 months, we've closed eight secondaries transactions, of which two were in the US. We expect that North America will continue to be a major source of deals for us.

Two of Headway's founding partners, Laura Shen and Sebastian Junoy, spend a significant part of their time working on US opportunities and we have enhanced our presence with the recent opening of our office in Boston, which will be led by our US Managing Director Cliff Meijer, who joined us two years ago after having been responsible for secondaries at Thomas Weisel.

You recently delisted London-listed cleantech investor Ludgate Environmental Fund. How did you come across this fund and how has it performed so far? Will you do similar deals in the future?

CD: LEF delisted in July following Headway's tender offer earlier in January. The LEF board was looking to provide liquidity alternatives to shareholders of this tail-end fund – there was virtually no liquidity in the shares despite the AIM listing –

and Headway was the ideal partner given its focus on smaller, non-traditional secondaries transactions.

The board recommended Headway's offer which represented a 25 percent discount to NAV at the time, and 58 percent of shareholders opted for liquidity. The LEF portfolio included some attractive and growing investments that we wanted exposure to and it has performed well so far; NAV has since increased by 35 percent. We consistently look for these types of unusual secondaries transactions.

Headway's strategy is described as focusing on complex transactions. What does complex mean to you and can you walk us through the types of deals you like? And what is pricing like in this space?

CD: Complex to us includes everything that is not a plain-vanilla purchase of traditional LP positions in well-known funds. We consider direct secondaries, GP restructurings and structured secondaries solutions (like preferred equity structures) to be complex because they require more due diligence, structuring, multipartite negotiations and post-investment management.

We particularly like direct secondaries and structured secondaries because these deals are not pre-packaged and often have to be created; sometimes the due diligence materials aren't in English, the GPs or sellers aren't very familiar with the secondaries market and the range of possible liquidity solutions, or a new manager and additional follow-on capital is required post-investment. These deals take much longer to evaluate, structure and execute than LP interest transactions.

That being said, some or our LP interest transactions are also quite complex. In the Global Infrastruktur transaction, we tendered for shares from thousands of retail investors in a structure investing in infrastructure funds. We like deals that other secondaries buyers don't like, not because the GPs or the assets are of poor quality, but because the deals are messier, more complicated and less obvious. Therefore, they tend also to be more attractively priced. While discounts in the overall secondary market are below 10 percent, it's not uncommon to see discounts as high as 50 percent or more in the more complex end of the market where we hunt. But caveat emptor, because a deal with a high discount isn't necessarily a good one.

What are the biggest challenges facing your part of the market and how do you navigate these? What about opportunities?

CD: Our biggest challenge continues to be resource allocation. There is tremendous dealflow out there, so the challenge for us is always to focus our resources on the best opportunities by ensuring we have a well calibrated filter.

The number and value of assets remaining unsold in private equity funds over 10 years old continues to grow exponentially and a solution is required for these unsold assets. We're very excited about the opportunity ahead for those groups willing to apply a significant level of expertise to complex situations that require thoughtful creativity and structuring.

Prior to co-founding Headway, De Lint was part of the investment team at Coller Capital where he sourced, evaluated and closed private equity secondaries deals. He has prior experience at Citigroup in London and New York.