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Secondary Market Is Still Slow, But Hope Springs Eternal

Secondary market deal volume remains well below where it was last year.

According to a research report from secondary intermediary NYPPEX LLC, deal volume for fund interests stood at \$4.1 billion through June 1, down just over 50% from the same period last year, despite the fact that prices have improved modestly since the end of the first quarter.

But NYPPEX still thinks deal volume could hit a record for 2009 - it puts forth an estimate of \$27 billion in volume by the end of the year - and it isn't alone in predicting an uptick.

With the economy showing signs of stabilization and 52-week highs in stock prices moving significantly lower as the downturn continues, a number of observers are predicting more deal activity in the third quarter of the year. That will drive an increase in capital calls, which will put pressure on LPs to sell fund stakes so they have money to fund calls.

"Investors haven't had to continue funding their portfolios," said one secondary intermediary, who added that capital calls are already picking up.

At the same time, the massive discounts to net asset value that secondary buyers have been offering are showing signs of narrowing, as fund managers continue to write down the value of portfolio companies and secondary buyers get more comfortable with the value of assets. Second quarter valuations, which will come out in August and September, will give buyers an even better sense of how funds are performing through the downturn.

"If the economy continues to stabilize and at the same time valuations come down, then deals will start to close," said Ian Charles, principal at Landmark Partners.

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