

How KKR blazed a trail for listed private equity

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Arguably the biggest single boost to Guernsey's private equity industry was the launch in June 2006 of KKR Private Equity Investors, which raised USD5bn from investors and obtained a listing on Euronext Amsterdam. The deal has prompted other private equity houses - and hedge fund managers - to seek listings, although nearly two years on, the verdict on the fund's success is more nuanced.

The KKR launch sent the island's profile rocketing in the US, where previously, industry members note ruefully, many private equity professionals would have struggled to find Guernsey on a map. 'KKR is the transaction people keep bringing up in conversation,' says Susan Clark of BNP Paribas. 'A transaction of that size makes other people sit up and take notice and think, why don't we look at it too?'

In practice, however, the sheer size of the transaction soaked up much of the potential investment, and since listing the KKR vehicle has not enjoyed the hoped-for liquidity. With the fund's share price sagging well below its net asset value, the fund's board has been talking about a dual listing in London. Last autumn the London Stock Exchange established a Specialist Funds Market designed to target the kind of managers who have recently opted for Euronext, but if anything interest seems even greater in a full listing under London's reformed Chapter 15 rules.

'A Euronext listing does not offer as much liquidity as you would get in London,' says Ian Burns, group managing director of the Anson Group, which was part of the team that launched the USD800m HarbourVest Global Private Equity fund on Euronext at the end of last year.

'HarbourVest is new to the market, but other funds that have listed on Euronext and have a predominantly UK-domiciled investor base have found the liquidity a bit disappointing. Although there are no plans by the HarbourVest board to move, some listed private equity vehicles may consider a dual listing on the main board in London as well as on Euronext.'

However, London was not an option for HarbourVest as a fund of funds because of its more stringent disclosure requirements. Says Burns: 'For HarbourVest, which invests in other private equity funds, it would have been impossible to get the required information from underlying funds in a timeframe that would allow it to publish the accounts in accordance with London Stock Exchange requirements.'

Burns does not expect the liquidity issue to slow the drive by alternative managers to create permanent capital vehicles, although he's not sure whether London or Amsterdam will be the main beneficiary. 'Obviously the risk that shares will go to a discount to net asset value is a discouragement to new investors who come in on an initial placing, only to see the value of their investment fall even when the net asset value is holding up,' he says. 'However, a number of permanent capital funds have been listed mainly on Euronext over the past couple of years, and I think this will continue in the future.'

Tammy Menteshvili, chief executive of the Channel Islands Stock Exchange, notes that many Guernsey-domiciled private equity funds are listed on the CISX rather than in Amsterdam or London. 'After the KKR deal, everyone thought Euronext must be the way forward, but that doesn't mean that what we have to offer isn't as attractive,' she says. 'We can raise that kind of interest from investors through our exchange just as well as any other stock exchange.'

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