

Restarting the Secondary Markets

Presented by

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Webinar length: 1 hour incl. Q&A



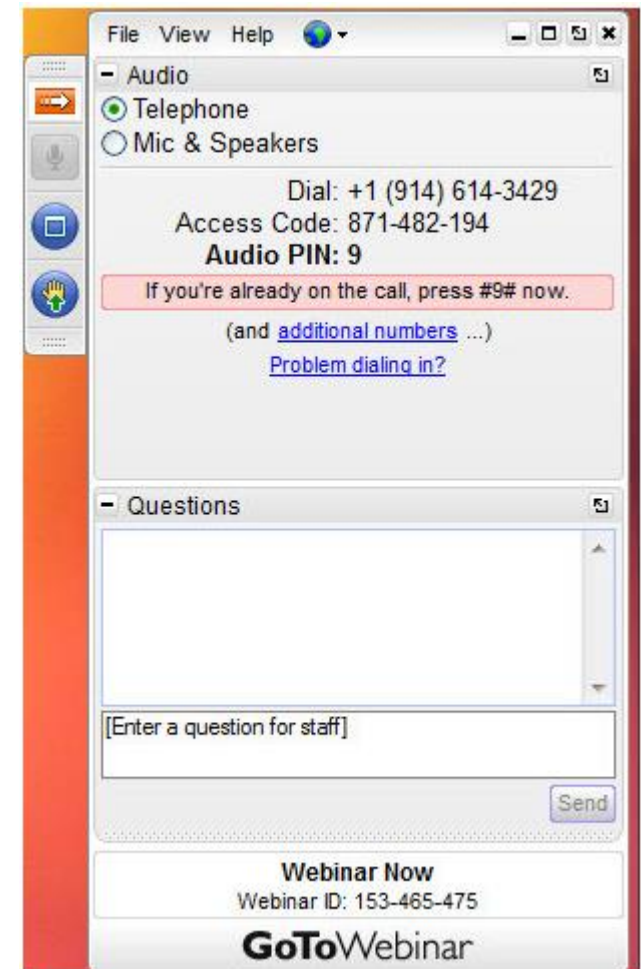
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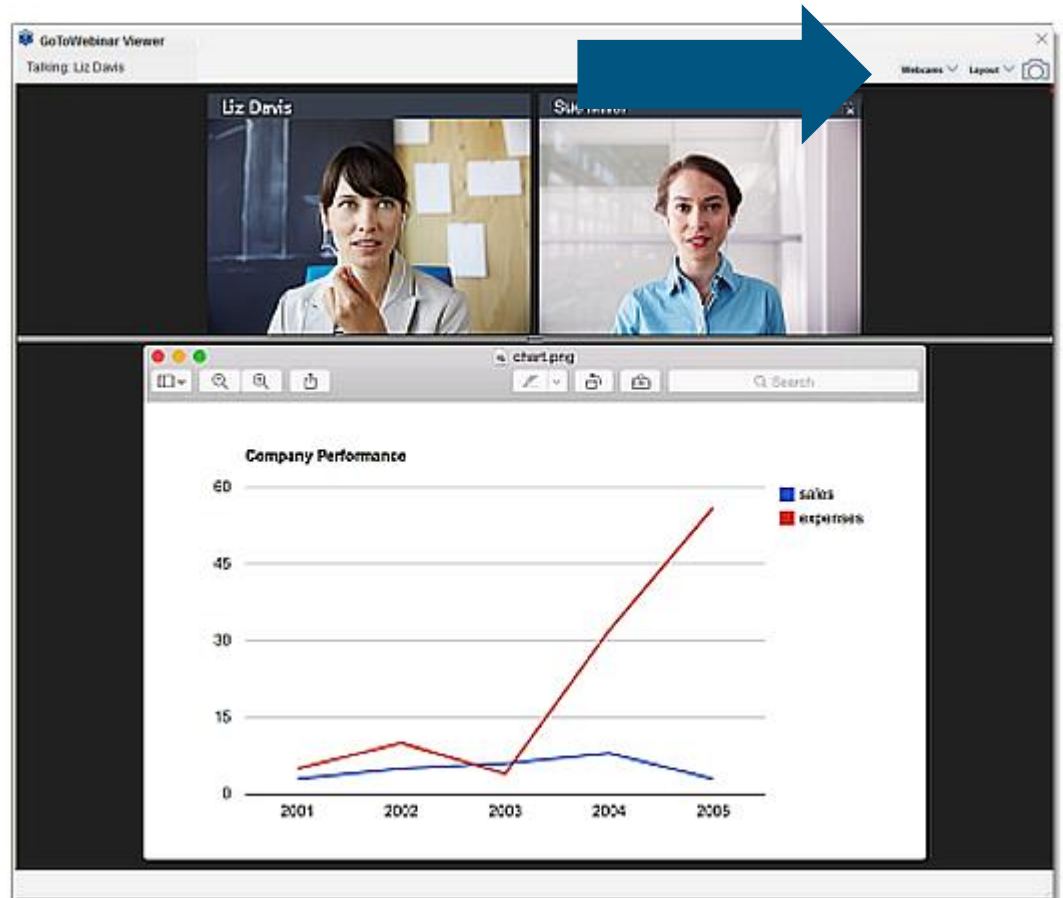
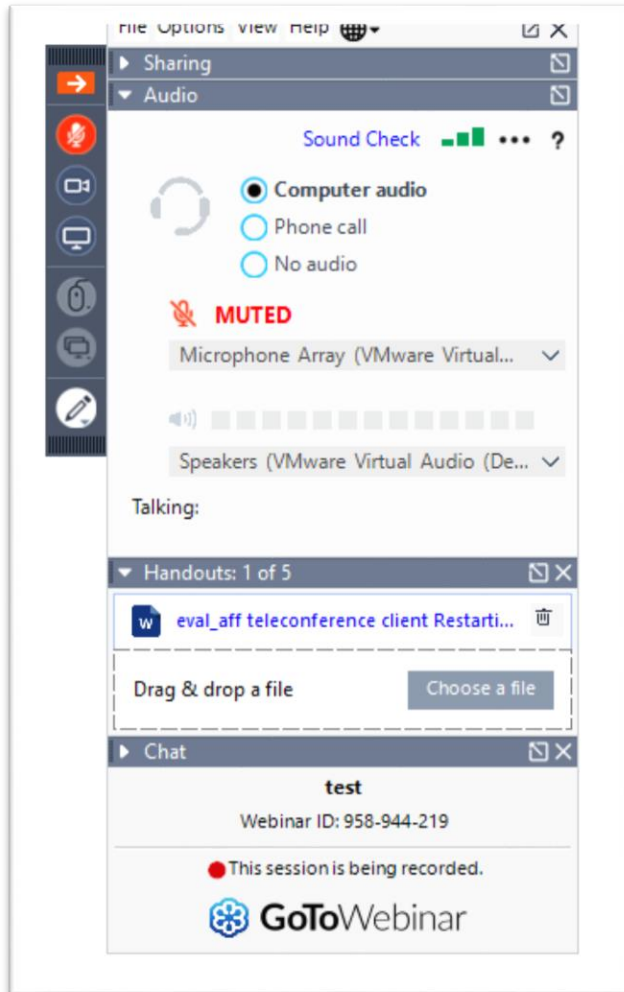
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Panel & Hosts



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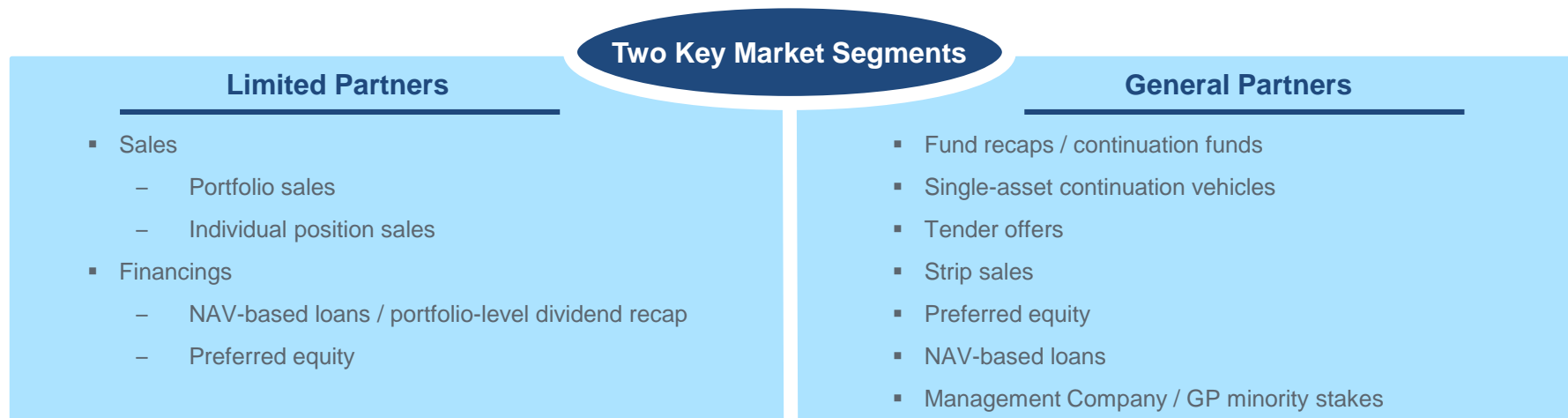
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History and Overview of Secondary Market

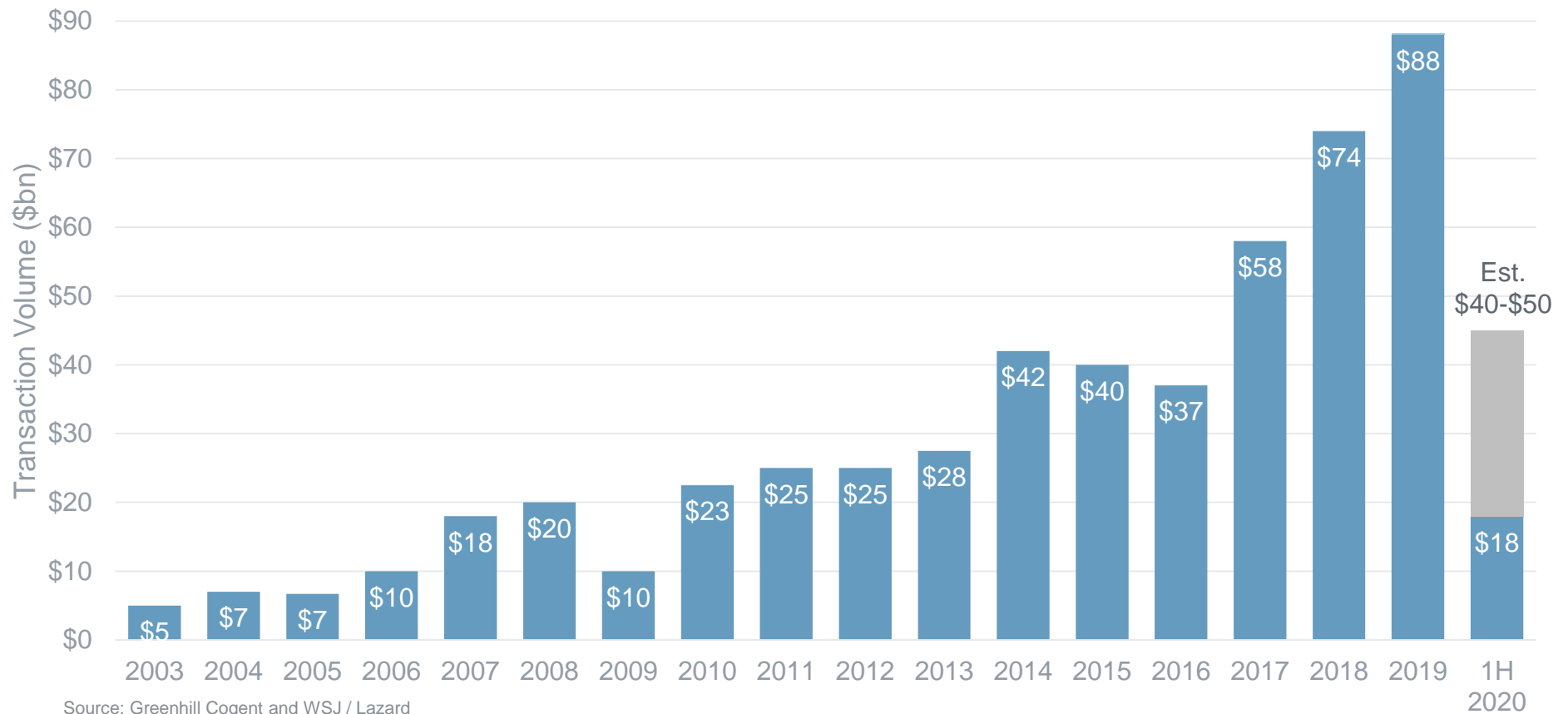
- Liquidity-driven market focused on private equity LPs and GPs – inherently owners of illiquid assets
- Market developed in the late 1990s and early 2000s – initially a forced-seller, discounted-pricing market
- Market came of age post-Global Financial Crisis
 - Grew from \$10B to \$90B per annum
 - Emergence of GP-led segment
 - Proliferation of transaction types and financing markets
 - Shrinking discounts due to increased competition, dedicated investment banking advisory, and underlying asset transparency



Global Secondary Transaction Volume

2003 – 2019

- Transaction volume reached record levels in 2017-2019 before plummeting in 2020



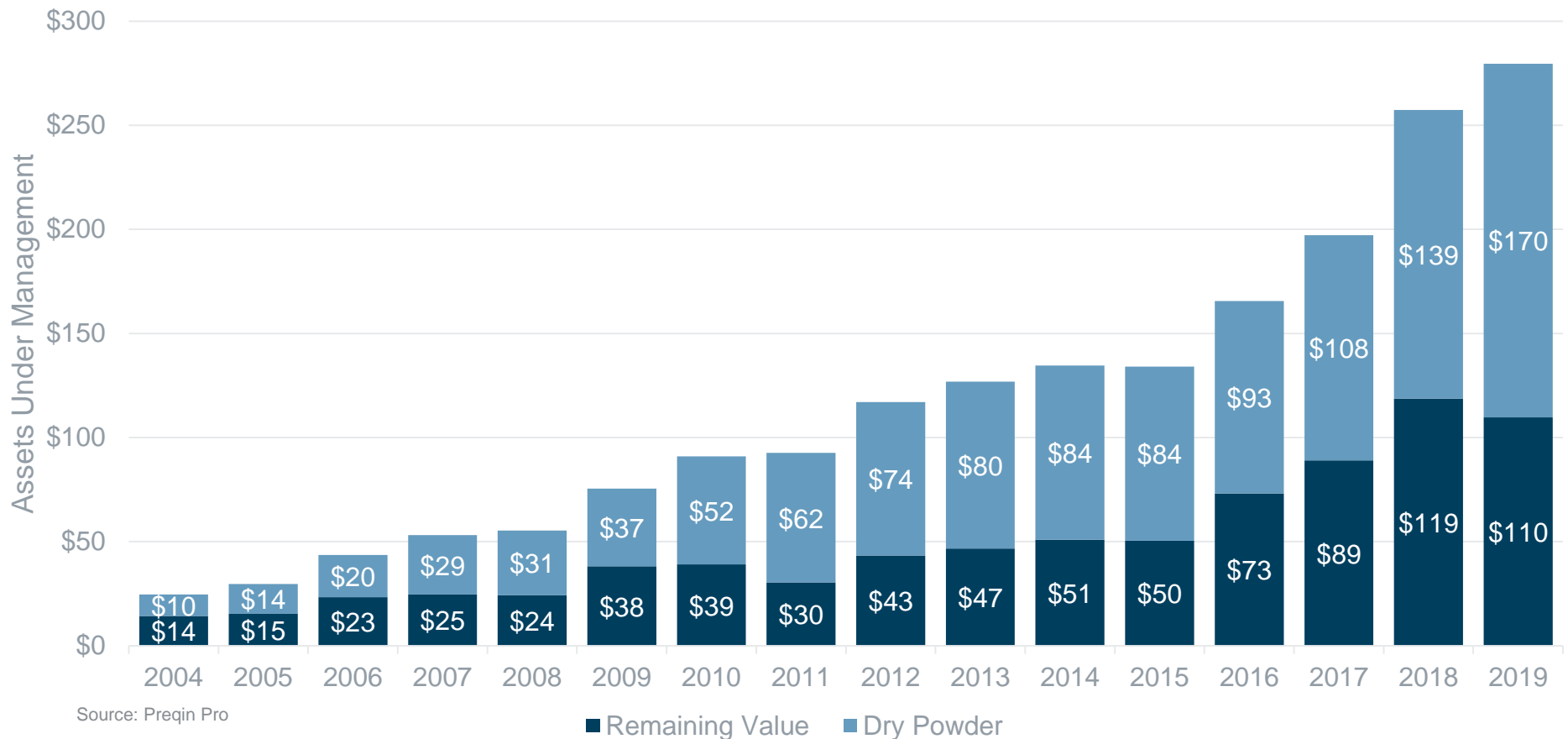
Source: Greenhill Cogent and WSJ / Lazard

* 2020 figure reflects \$18 million of transaction volume for 1H 2020, and estimates for \$40-50 million of transaction volume for the full year

Secondaries Assets Under Management

2004 – 2019

- The global secondary market is now approximately 5x larger than in 2008



Transactions Go on Pause While Dry Powder Accumulates



- COVID-19 pressed pause on secondary transactions
- 57% decline in transaction volume from 1H 2019 to 1H 2020
- Majority of transactions in the market or being prepared for launch in mid-March were ultimately pulled from the market or postponed
- \$44 billion raised for secondaries funds in 1H 2020
 - This outpaces all of 2019
- Record \$125 billion in dry powder in secondaries funds as of 6/30/2020
- Drivers of secondary transactions unchanged (e.g., demand for liquidity; creative solutions for portfolio management / financing)
- Meanwhile, other liquidity solutions remained active
 - E.g., preferred equity and NAV financing

Sources: Greenhill, Preqin

Liquidity Solutions for Private Funds in the Secondary Market During Market Dislocation

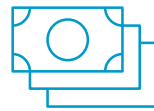
Alternative transaction structures accounted for 15% of 1H 2020 transaction volume

Preferred Equity / NAV Loans



- Pros
 - Less dependent on portfolio valuation
 - Speed, flexibility
 - *Pref equity*: capital paid back as realizations on underlying portfolio happen
 - *NAV loans*: favorable terms relative to bank loans
- Cons
 - LP & lender consents often required
 - LP co-investment allocations may need to be reserved

Shared Waterfall Structures



- Pros
 - Mitigates valuation gap
- Cons
 - Complexity
 - Cost
 - LP & lender consents often required

Early Secondaries



- Pros
 - Mitigates valuation gap
 - Room for negotiation
 - Relatively straightforward
- Cons
 - Primarily for LP liquidity needs rather than portfolio financing

What to Expect as Markets Restart



- There is a market sense that Q3 2020 valuations are going to be more reliable and will reflect the “new normal”
- Signs of increased activity from secondaries market intermediaries
- On pricing, average high bid for full year 2020 (all strategies) estimated to be 85% of NAV (compared to 92% in 2018 and 88% in 2019)
- Deals in market right now are heavily skewed toward GP-led transactions; potential ongoing bifurcation between GP-led transactions and LP portfolio sales as GP-led market recovers more rapidly and LP sellers stay on the sidelines
- Increased interest in single-asset / concentrated portfolio transactions
- As broad market adoption continues for preferred equity and NAV loans, more GPs will utilize these tools for opportunistic and portfolio management reasons

Questions



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