The Case for Secondary Allocations in a Well Diversified Private Markets Program

Executive Summary

- Many institutional investors have historically viewed secondary strategies as a beneficial allocation early in a private equity program's life due to several potential attractive features, including J-curve mitigation, efficient capital deployment, significant diversification, and, importantly, the compelling opportunity for strong risk-adjusted returns.
- In **Section 1**, we describe why many investors have chosen to allocate to secondary strategies historically. We also briefly discuss the performance and cash flow characteristics of secondaries compared to primaries and co-investments.
- In **Section 2**, we discuss the growth and composition of the secondary market, with a focus on the rise of GP-led secondary opportunities.
- Finally, in **Section 3,** we explain why many sophisticated private market investors have come to view secondary market exposure as a permanent component of their private market allocation, even if their illiquid alternatives programs are now mature. One reason for this more consistent role in the portfolio is the desire for exposure to flexible, opportunistic – and in some cases counter-cyclical – capital, able to react quickly to market dislocations. Another reason for the increased exposure to secondary strategies is the view that the secondary market's combination of rapid growth and innovative transaction structures can continue to provide attractive investment opportunities for secondary fund managers with investment mandates broad enough to seek out the best risk/reward opportunities across the full spectrum of private market strategies.
- Of note, we intentionally use the phrase private market, as opposed to private equity, throughout this paper. We believe that at this point, the secondary market has become large and institutionalized enough to support numerous firms and funds targeting niche and asset-specific strategies, as well as large generalist secondary funds with broad mandates. The decision to invest in a secondary fund with a focus on a specific sub-market, such as European secondaries or venture capital secondaries, may be warranted by the investment thesis that those private market sectors will present better-than-average investment opportunities during the fund's investment period. However, we believe some capital should always be allocated to secondary managers with the experience and expertise to source broadly and underwrite a wide variety of asset types.

The secondary market's combination of rapid growth and innovative transaction structures can continue to provide attractive investment opportunities for secondary fund managers with investment mandates broad enough to seek out the best risk/reward opportunities across the full spectrum of private market strategies."

Acknowledgements

Secondaries and Liquidity Solutions "SLS" team

Section 1: Private Market Secondaries – Potential Benefits to New and Experienced Private Market Investors

Definitions

- Private market secondaries involve the sale and purchase of investors' existing interests in illiquid alternative investment funds, and sometimes in portfolios of direct investments in private companies or other illiquid assets. Purchasers (secondary funds or other investors) typically acquire interests in an existing fund's remaining assets and assume the seller's commitments to meet future capital calls. Historically, most secondary transactions involved the sale of limited partnership ("LP") interests in individual funds or portfolios of funds. However, the secondary market has evolved to include more complex and customized liquidity solutions, including both direct secondaries (defined as portfolios of direct investments in companies or assets not held in typical fund structures, almost always involving a third-party team that manages the investments on behalf of the secondary investor) as well as manager-led secondaries, a topic we will spend more time on later in this paper.
- Ultimately, the secondary market exists principally to provide liquidity to an otherwise illiquid asset class; it is one of few ways for LPs to exit early or opportunistically from their investments in what are typically twelve-year vehicle structures. For buyers, secondary market exposure has historically been viewed favorably as a means of investing in mature, substantially funded assets with reduced blind-pool risk relative to making new commitments. See below for a discussion of the various portfolio benefits that may arise from an allocation to secondary strategies.

Portfolio Benefits

- **Portfolio diversification**. Secondaries can allow for immediate diversification through exposure to a variety of older vintage investments, diversified across manager, strategy, industry, and geography. Secondary portfolios can range widely in size and composition, from small, single fund interests, to multi-billion-dollar portfolios of dozens of funds managed by numerous private market managers. The underlying companies in individual transactions can number in the hundreds, and a well-constructed secondaries portfolio can have exposure to over 1,000 companies. The ability to "back-fill" past vintage year exposures is attractive, particularly for investors seeking immediate exposure to private markets, and looking to quickly ramp-up their multi-year private market investment programs.
- **J-curve mitigation.** The J-curve refers to the period of time during which the performance of a private market fund is negative. The principal reason for its existence is the payment of management fees early in the investment period, when capital contributions are still relatively low. The typical management fee rate is 1.0% - 2.0% of LP commitments, while average capital contributions during the first year of a fund total ~20%.[1] Together, these inputs imply a multiple after one year of about 0.9x, and an internal rate of return ("IRR") of -20% or even lower, depending on the timing of the cash flows. Value creation and/or early distributions can cause performance to improve fairly rapidly - industry data shows that it takes on average three years to show positive performance, meaning that the average J-curve of a buyout fund is about three years.[2]
- Figure 1 shows the time-evolution of the internal rate of return ("IRR") (left) and total value to paid-in ("TVPI") (right) for three diversified programs that invest, evenly and equally, during four years, in primaries (orange), secondaries (yellow), and co-investments (green). The dashed orange line is for a single buyout fund and is included for reference.

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.
Source: BlackRock. 1 Based on historical analysis. 2 Figures are confirmed by industry data (Burgiss Private iQ) and historical performance of internal fund investments; analysis derived in January 2021; data from Q1 2002 – Q2 2021.

Section 1: Private Market Secondaries – Potential Benefits to New and Experienced Private Market Investors (cont'd)

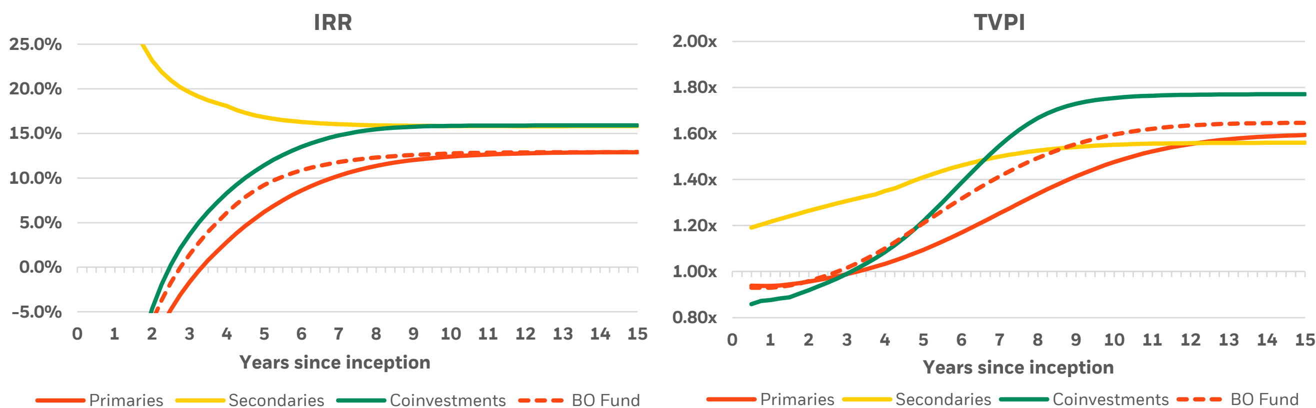

Figure 1: Historical performance of primaries and co-investments based on internal historical performance data. For illustrative purposes only. Historical performance of secondaries was simulated using actual market pricing as reported by sell-side advisor Greenhill. Derived in June 2021; data from Q1 2002 – Q2 2021. Further details can be found in the Appendix.

- As can be seen above in the hypothetical illustration, the performance of the primary strategy turns positive between years 3 and 4, slightly longer than a single primary fund, as managers typically make various primary commitments over a period of 4 years, which elongates the entire pacing of cash flows.[3] Co-investments turn positive more quickly, between years 2 and 3, principally due to the lower fee structures of these funds. Secondaries may show very strong early performance due to assets being acquired at discounts to NAV. As a result, secondaries have the potential to generate high early IRRs that gradually move towards more normalized levels by years 4 or 5.
- **Efficient cash flow profile**. Figure 2 graphs the cumulative cash flow experience, not considering NAV, for primaries, secondaries, and co-investments. The data shows that a typical primary program takes 10 to 11 years to become cash flow positive and show a realized multiple larger than 1.00x. This breakeven point for co-investments is earlier, after about 7 to 8 years, whereas the breakeven point for secondaries is even earlier, at about 6 to 7 years. The potential for secondaries to generate an earlier return of capital is thus an attractive feature for investors new to private markets.
- The minimum boundary of these curves shows an investor's maximum cash outflow, or "net out-of-pocket" exposure. Co-investments are typically fully funded in year 1, and distributions arise mainly from realizations; thus, a co-investment program has the largest net out-of-pocket exposure of about 80% - 85%. Secondaries are usually funded more slowly than co-investments, and distributions typically arise earlier depending on the vintages of the underlying funds; as such, a secondary program has a much lower net out-of-pocket exposure of just under 50%. This attractive feature of secondaries is further enabled by early distributions that may be recycled into new investments, allowing the secondary manager to minimize the net capital called from investors. A primary program's net out-of-pocket exposure is roughly 50% - 55%, between that of secondaries and co-investments.

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Source: BlackRock. 3 All simulations are net, and underlying as well as providers management and performance fees are included. Credit facilities and recycling mechanisms are excluded from these analyses. Figure 1 is a hypothetical illustration, actual outcomes may differ.

Section 1: Private Market Secondaries – Potential Benefits to New and Experienced Private Market Investors (cont'd)

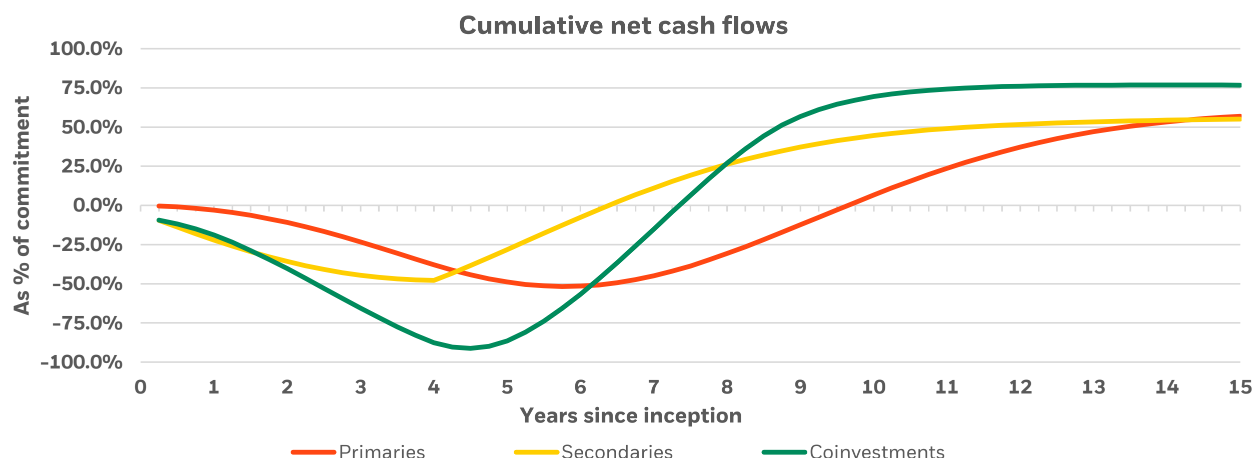

Figure 2: Net cumulative cash flows of three diversified programs that invest, evenly and equally during 4 years, in primaries (orange), secondaries (yellow) and co-investments (green). Derived in January 2021; data from Q1 2002 – Q2 2021. Further details can be found in the appendix.

- **Attractive risk-adjusted returns.** Perhaps most importantly, secondaries have historically delivered attractive risk-adjusted returns (defined by the standard deviation of returns) and low loss ratios (defined as the percentage of transactions that result in loss of invested capital) relative to other private market strategies. To give a better sense of the risk-reward profile of primaries, secondaries, and co-investments, Figure 3 shows dispersion metrics at the end of a private markets program. Compared to primaries, secondaries have historically generated a higher median IRR of 15.9% compared to the median primary IRR of 13.2%, with a very similar TVPI. The lower inter-quartile range and higher 5th percentiles for secondaries can be interpreted as a manifestation of the reduced blind pool risk of secondaries, and suggests that secondaries can demonstrate favorable risk-adjusted returns.

	IRR			**TVPI**		
Characteristic	Primaries	Secondaries	Co-investments	Primaries	Secondaries	Co-investments
Mean	13.0%	16.0%	18.5%	1.60x	1.58x	1.80x
Median	13.2%	15.9%	16.0%	1.59x	1.59x	1.76x
Inter-quartile range	4.7%	3.0%	12.4%	0.23x	0.20x	0.44x
VaR_5	7.9%	12.4%	6.9%	1.37x	1.33x	1.35x

Figure 3: Expected return and dispersion obtained through Monte-Carlo simulation as explained in the Appendix. Derived in January 2022; data from Q1 2002 – Q2 2021.

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Source: BlackRock. 4 Burgiss Private iQ Associates; returns based on median since Q1 2002 to Q2 2021 net IRR across all funds (i.e. all vintage years and geographic regions for each strategy noted) in the Burgiss database. Figure 2 and Figure 3 are hypothetical illustrations and are not representative of any specific investment program, actual outcomes may differ.

Section 2: Sizing the Opportunity Set – Growth of the Secondary Market

Market Size and Growth

- The secondary market has experienced rapid growth over the past two decades as global private markets have grown and matured. As seen in Figure 4 below, 2023 global secondaries transaction volume exceeded $100bn for the third consecutive year, this is more than 4x the volume seen a decade ago, and 16x the volume seen in 2004.[5]

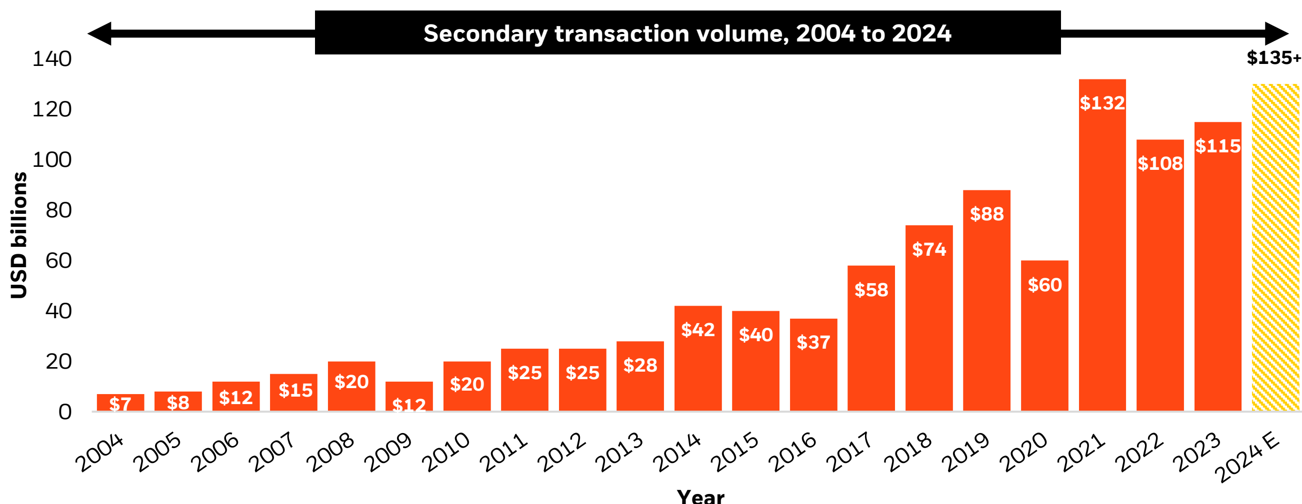

Figure 4: Source: BlackRock; Jefferies – Global Secondary Market Review, January 2024.[5] PJT Park Hill – Secondary Investor Roadmap Series, January 2024.[6]

- A significant portion of this growth is attributable to the rapid expansion of primary fundraising, which grew at a 5% CAGR between 2019 to 2023. Market data shows that 3,400+ managers are actively investing today, and that, on average, more than 1,000 funds are raised annually. [7]
- Long-term data suggests that annual secondary market volume has historically averaged approximately 2.5% of total private equity net asset value ("NAV"), or approximately 1.5% of total private market NAV. With more than $7.9tn of global private equity NAV, annual closed secondary transaction volume of well over $100bn over the next several years would not be unexpected – as the primaries of today become the secondaries of tomorrow. [8]
- Further, the market has expanded as secondaries have evolved into a "legitimate" dimension of the private markets landscape from the general partner ("GP"), LP, seller, and buyer perspectives. While investors seeking liquidity during times of stress and dislocation has historically been a key driver in secondary market selling (see Section 3), the private market landscape has evolved in sophistication such that the secondary market has become a more commonly utilized portfolio management tool for private market investors of all types. In 2023, 75% of transaction volume was attributed to active portfolio management (either due to rebalancing, or idiosyncratic and opportunistic factors), 10% to regulatory pressure, 8% to distressed / liquidity-driven sellers, 4% to non-core asset disposition, and 4% to winding down tail-end funds.[9]

Source: BlackRock. 5 Jefferies – Global Secondary Market Review, January 2024. 6 PJT Park Hill – Secondary Investor Roadmap Series, January 2024.7 Preqin as of April 2024. Vintages 2019-2023. Buyout, venture, growth, direct lending, mezzanine, distressed, and special situations. Minimum fund size $100m. 8 Preqin Historical Fundraising and Assets Under Management search tools as derived in April 2024.

Section 2: Sizing the Opportunity Set – Growth of the Secondary Market (cont'd)

A Bifurcating Market: LP-led and GP–led Secondaries

- An important part of this market evolution has been the rise of more complex and customized liquidity solutions, which has led to bifurcation in the secondary market in terms of transaction types. While there are no agreed-upon terms for the various types of secondary strategies, one generally accepted framework is to divide secondary transactions into two broad categories: LP-led and GP-led.
- As seen in Figure 5 below, LP-led secondaries are transactions in which a secondary investor purchases either a single LP interest or a portfolio of more than one – and sometimes many – partnership interests from a LP who desires early liquidity. A diversified secondary portfolio constructed by executing 15 transactions each involving the acquisition of 10 funds with 10 companies each can easily result in a very diversified portfolio of >1,500 underlying portfolio companies.

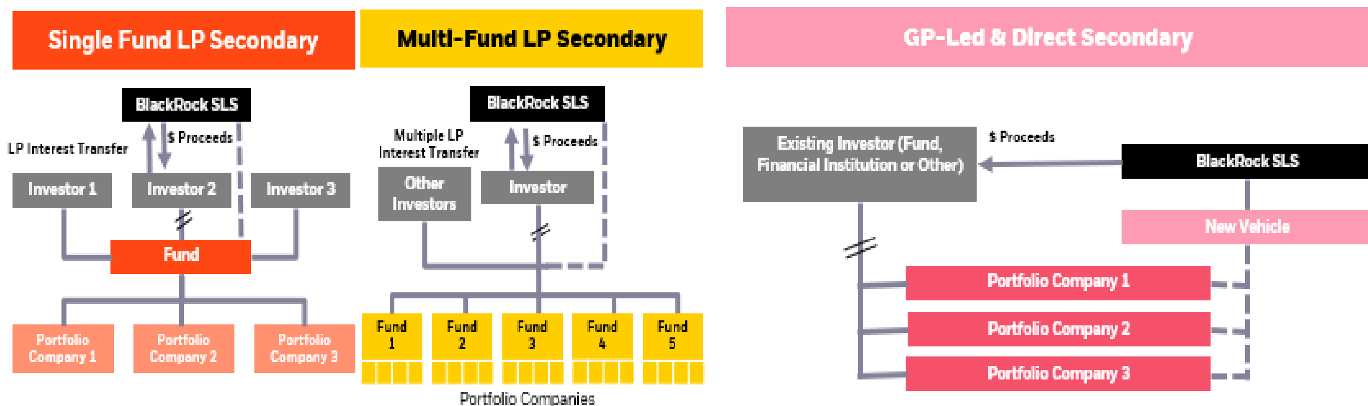

Figure 5: Source: BlackRock. LP-led vs GP-led transaction structures.

- While more complicated to define because there are a wide variety of sub-strategies, GP-led secondaries (often referred to as manager-led or GP-led transactions) generally have two defining characteristics: i) the manager of the fund has a more active role in the secondary transaction, and ii) the portfolio in question tends to be more concentrated. GP-led transactions have become a key part of the secondary market over the last few years, representing nearly half of all secondary transaction volume since 2020, as shown in Figure 6 below. [10]

Source: BlackRock. 10 Jefferies – Global Secondary Market Review, January 2024.

Section 2: Sizing the Opportunity Set – Growth of the Secondary Market (cont'd)

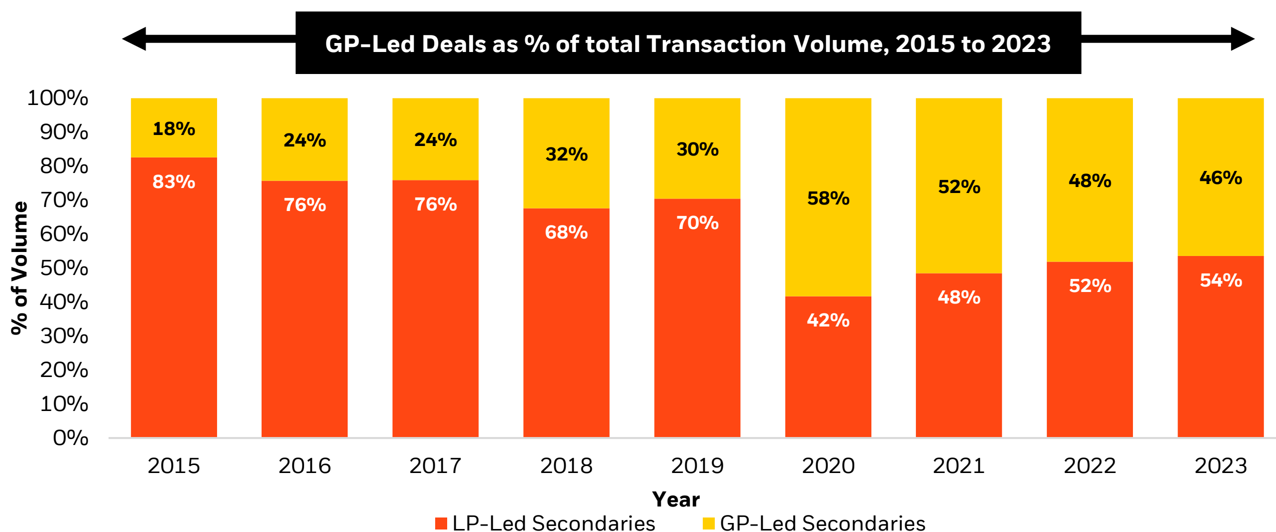

Figure 6: Jefferies – Secondary Market Trends/Outlook, January 2024.

- Regarding the fund manager's role in the transaction, it is often the manager initiating the transaction. Consider, for example, a fund manager who wishes to offer an early liquidity option to all existing LPs in a particular fund. That manager may facilitate such liquidity by partnering with a secondary investor who extends a tender offer for any and all interests in that fund. Alternatively, consider a fund manager who comes to realize that one or more companies in their portfolio will need more time and/or more capital than available in the current fund to achieve their full return potential. As such, the manager may partner with a secondary investor to purchase the companies and put them into a new partnership (commonly referred to as a "continuation vehicle") with a longer duration and/or additional capital to execute the value creation plan. Therefore, a secondary portfolio constructed entirely of GP-led transactions may have fewer than 100 underlying companies once the secondary investor has completed its investment period.

Market Outlook

- We expect the global secondary market to continue to grow over the short and long term given the expansion of unrealized private markets assets, strong primary fundraising, emerging transaction types, most notably manager-led liquidity options, and an attractive market structure that continues to facilitate deal activity. Notably, we also expect the continued utilization of the secondary market as an active portfolio management tool by both LPs and GPs, particularly as increasing geopolitical and economic uncertainty leads these parties to seek alternative routes to liquidity, as narrowing exit opportunities leads to slower distribution activity. Taken all together, the above data suggests that the supply of secondary assets available in the market should continue to grow rapidly.
- Turning now to the demand side of the ledger, secondary market advisors estimate there was approximately $166bn of dry powder targeting the global secondary market at the end of 2023, which is just over one year's worth of deal activity (versus almost three years of dry powder in the broader private equity market). Even with estimates of an additional $98bn of secondary capital that may be raised over the next twelve months, the secondary market remains the private market strategy with one of the lowest ratios of available capital to deal activity.[11]

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Source: BlackRock. 11 Evercore Private Capital Advisory – FY2023 Secondary Market Survey Results, February 2024.

Section 3: Secondaries as a Dislocation Play

- An increasing number of large and sophisticated institutional investors have chosen to make secondary market exposure a core component of their private markets portfolio, even when their illiquid portfolio has reached maturity. For these mature programs, benefits such as J-curve mitigation, broad diversification, and increased exposure to prior vintage years may be less relevant. When asked, then, why they continue to allocate to secondaries, leaders of these programs tend to cite two key reasons: (i) the continued potential for compelling risk-adjusted returns, and (ii) the ability to capitalize on dislocations.

The Continued Potential for Attractive Investment Performance

- As discussed in Section 1 and demonstrated in Figure 7 below, secondaries as a strategy has historically delivered the highest net median returns among private equity strategies, on a standalone basis as well as relative to the standard deviation of returns among private equity strategies.[12]

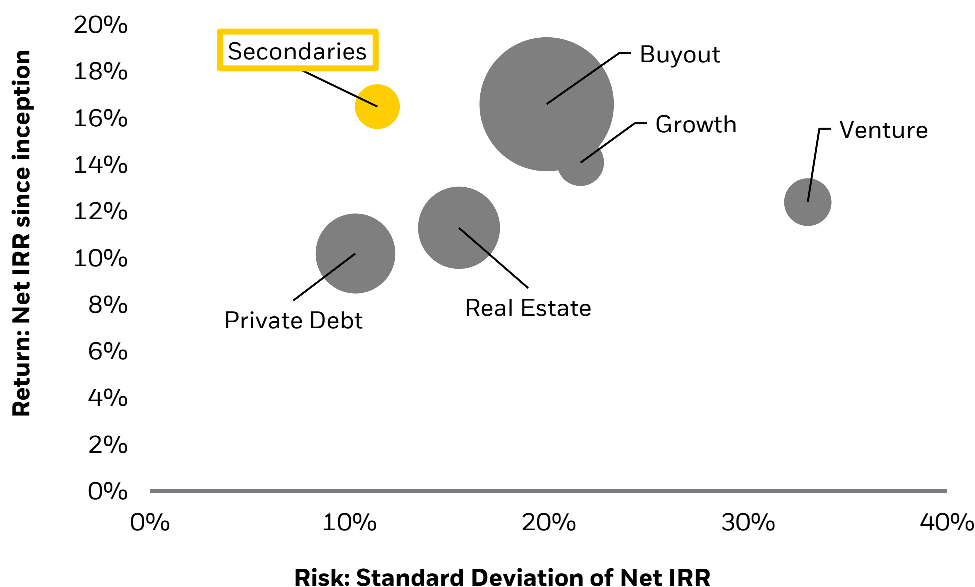

Figure 7: Preqin benchmark search tools as derived on 20 December 2023

- There are several reasons why we believe the secondary market may continue to deliver attractive returns to investors. First, we expect the opportunity set to grow, and the supply-demand balance to continue to favor the buyer for the reasons mentioned above. In addition, the secondary market remains highly inefficient relative to most other investment strategies; the heterogeneous nature of private market data means the secondary market is still characterized by price and information inefficiencies. For example, private equity reporting continues to be uneven and inconsistent among managers and strategies, and time-lagged by months or quarters. Well-resourced secondary managers can create value by applying current economic, financial, and market judgments to stale GP reporting to acquire attractive portfolios and assets at favorable prices.

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Source: BlackRock. 12 Preqin benchmark search tools as derived in December 2023. Bubble size represents total market capitalization of all funds in the noted strategy. Net IRR reflects the median since 2000 net IRR across all funds (i.e. all vintage years and geographic regions for each strategy noted) in the Preqin database.

Section 3: Secondaries as a Dislocation Play (cont'd)

The Ability to Capitalize on Dislocation

- Secondary strategies may allow investors to access private market assets efficiently and at scale following dislocations that create favorable entry points. We define dislocations as times when unexpected change creates opportunities to acquire assets at discounts to their intrinsic values, where intrinsic value is based on asset-by-asset, bottom-up valuation. We classify these dislocations into three broad categories: market driven, limited partner driven, and general partner driven. Dislocation may refer to broad-based financial market volatility that causes a large swath of investors to seek early liquidity. Conversely, the dislocation may be more focused on a specific market sector or investor type. We describe various types of dislocations below, and provide examples of specific investment opportunities that have arisen from historical dislocations.

Market-Driven Dislocations

- **Broad-based economic dislocation / significant public equity volatility.** Broad public equity volatility, as seen during the early 2000s ("dot com" bubble bursting followed by the September 11th terrorist attacks), the Global Financial Crisis of 2008 – 2009, the Covid-19 pandemic, and most recently, the second half of 2022 into the new year, have historically offered attractive entry points for investors with long-term investment horizons. One conundrum private market investors face, however, is that it can be challenging to ensure that committed capital actually gets deployed during the time period that equity values are low. While direct private equity funds will be on the look-out for attractive investment opportunities in their respective geographies or industries, they may also be distracted by issues at existing portfolio companies, and constrained by the scarcity or expense of debt financing for new investments. It is also possible that owners of individual companies will be less likely to sell at valuations significantly below their perceptions of long-term fair value. A consistent allocation to secondaries may increase the probability of investor capital being deployed while asset prices are low because there may be sellers motivated to accelerate liquidity for non-economic reasons.

  For example, some LPs may be inclined to sell due to the "denominator effect," which is when real-time public equity valuations are mixed with private market valuations that are three to six months lagged, leading investors to exceed their target private equity allocations. Conversely, LPs may believe they are overweight to private equity as a result of the "numerator effect," which refers to a situation in which private market portfolios outperform their public equity counterparts. There was a clear and telling shift away from the "numerator effect" in 2021 towards the "denominator effect" in 2022, with 34% of 2021 Sellers citing an overallocation to private equity amidst outperformance of the asset class as a key reason for selling, and 48% of 2022 Sellers citing an overallocation to private equity amidst public market declines as their primary motivation to sell.[13]

  In addition to declines in public market portfolios, a slowing pace of distributions and limited capital availability to re-up commitments to key managers can lead to a surge in additional supply as LPs seek liquidity. Secondary transaction volume in 2023 was underpinned by this need for liquidity, as distribution pace slowed materially amidst decade-low exit volumes. Sponsors were reluctant to seek exits in an environment characterized by high interest rates and macro uncertainty, which resulted in61% and 80% declines in M&A and IPO activity, respectively. Lack of distributions fueled transaction volumes in both (i) the LP-led market, driving 36% of all seller activity in 2023 (up from just 14% in 2022), and (ii) the GP-led market, with GP-led secondaries accounting for 12% of total sponsor-backed exits during the year, up from just 5% in 2020.[14] This influx in high quality supply created an attractive opportunity for secondary buyers, while also serving to further legitimize the portfolio management capabilities of the secondary market.

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Source: BlackRock. 13 Jefferies – Global Secondary Market Review, January 2022 and January 2023. 14 Jefferies – Global Secondary Market Review, January 2024.

Section 3: Secondaries as a Dislocation Play (cont'd)

- **Industry-specific**. Over the last decade, there have been numerous examples of industry-specific dislocations that have created attractive investment opportunities for secondary investors. These include hedge fund side pockets and real estate assets following the financial crisis, as well as energy secondaries in the mid-2010s.
- **Credit dislocation.** As credit cycles evolve, the secondary market has been a source of capital for LPs and GPs that are not able to access traditional sources of debt capital. For example, GPs in need of incremental follow-on capital and faced with higher lending standards, prohibitively high interest rates, and limited access to LP equity (because the fund is 100% called) have used the secondary market for preferred equity or mezzanine-type financings.
- **Regulatory change.** In recent years, regulatory changes including the Volker Rule and Basel III framework have made it more difficult for certain investors, primarily financial institutions, to hold private assets. These changes have caused many sellers to divest private equity portfolios on an accelerated basis. In 2019, one of the largest secondary transactions in history, a US$5bn portfolio of LP interests, was catalyzed by a Japanese institution looking to ease regulatory pressures related to their private assets.[13]

Limited Partner Dislocations

- **Active portfolio management.** LPs may consider secondary sales as prudent and sensible tools for portfolio management. The catalysts for active management often include the numerator or denominator effects (as mentioned above), or modest changes such as changes in valuations, cash flow management, or industry and geography exposures, which can cause investors to sell in order to conform to asset allocation policies.
- **Strategy / governance changes.** Over time, institutions may see other areas of investment opportunity emerge, and look to reallocate capital to these opportunities. Also, as CIO and portfolio management roles change, newly appointed teams may look to reallocate capital away from investments or strategies that were selected by their predecessors. The secondary market allows for accelerated liquidity that can be deployed into new investment strategies.
- **Tail end / "clean up" sales.** Longer-than-expected duration investments often become burdensome from a monitoring perspective, and a tail end portfolio sale is an attractive option for certain LPs.

General Partner Dislocations

- **Manager-specific dislocation.** Over time, the alignment of interests between GPs and LPs may shift. Misalignment may arise from a fund not being positioned to earn carried interest due to poor performance early in the fund's life, a change in the management of the portfolio, or an imbalanced portfolio. The secondary market can provide capital to facilitate a liquidity option for existing LPs, re-incentivize the GP, and extend the timeframe for value creation.
- **Corporate dislocation.** When institutions merge or change strategies, there may be private market investment activities that become non-core. One example arose through the merger of JPMorgan and BankOne, as both banks had their own captive private equity investment teams. JPMorgan Capital Partners was spun-out into a stand-alone firm, CCMP Capital, through a US$1bn secondary transaction.

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Source: BlackRock, 2024.

Section 3: Secondaries as a Dislocation Play (cont’d)

Conclusions

- The secondary market for illiquid alternative investments has grown rapidly over the last 25 years, and has now become a core allocation for many institutional investors. This paper attempted to define how secondary managers create value, how factors such as information lag and asymmetry can create secondary alpha, and why the risk-return profile of secondary strategies may be diversifying and accretive to other private market strategies such as primaries and co-investing. Further, this paper outlined the structural drivers for continued growth of the secondary market, including the expansion of primary fundraising and the increased sophistication of the market, and discussed how the attractive supply-demand dynamic relative to other private markets strategies favors secondary buyers. Finally, the paper sought to highlight the bifurcation between LP-led and GP-led secondary strategies, and the distinct characteristics of each sub-strategy.

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Source: BlackRock. 2024

Appendix

Monte Carlo Simulation

- All analyses are based on diversified private equity programs investing evenly and equally during 4 years in primaries, secondaries and co-investments. All programs are constructed in a random manner by sampling, without replacement, from a large universe of existing investments of which the full cash flow and valuation historical was available. Cash flows of underlying investments are aggregated to a program level and then aggregated to calculate the program IRR and TVPI, net of all management fees and carried interest at underlying and at provider level. In total, 10'000 simulation runs were performed. Results are representative for investors in these programs, not in individual investments or transactions.
- By constructing such simulated programs, one can calculate more insightful risk metrics such as dispersion, inter-quartile ranges and extreme scenarios. Also, risk-adjusted return metrics taking into account fat-tailed characteristics, such as the Sortino ratio, can be derived.
- Dataset:
    - Primaries: internal data since 1997, 271 buyouts funds with at least 5 years of data
    - Secondaries: same data as primaries but simulate a secondary transaction by purchasing a stake in a random primary during year 4, 5 or 6 at market pricing. A threshold of 50% funded and a 0.8x TVPI at the transaction date was applied. As such the secondaries programs in this work represent only the LP-led component of secondaries and not the GP-led part of the market that might provide incremental alpha.
    - Co-investments: internal data since 2001, 96 fully or partially realized buyout co-investments with at least 5 years of data
    - Complemented with industry data from Burgiss Private iQ and Preqin

Risk warnings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Private Equity: Private Equity Funds invest exclusively or almost entirely in financial instruments issued by companies that are not listed (or that take-over publicly listed companies with a view to delisting them). Investment in private equity funds is typically by way of commitment (i.e. whereby an investor agrees to commit to invest a certain amount in the fund and this amount is drawn down by the fund as and when it is needed to make private equity investments). Interest in an underling private equity fund will consist primarily of capital commitments to, and investments in private equity strategies and activities which involve a high level of risk and uncertainty. Except for certain secondary funds, private equity funds will have no operating history upon which to evaluate their likely performance. Historical performance of private equity funds is not a guarantee or prediction of their future performance. Investments in Private Equity are often illiquid and investors seeking to redeem their holdings can experience significant delays and fluctuations in value.

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