

The Private Equity

Secondary Market

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EXECUTIVE SUMMARY 1/2

The secondary market exists to provide liquidity in an illiquid asset class and in the last decade has experienced a continuous and rapid growth.

- The secondary offers liquidity solutions to investors that want to exit early from investment, rebalance the portfolios, modify their business model.
- Secondary started with sale and purchase of LP's interests in PE funds, evolved to embrace direct interests of sellers in private companies and more recently has moved to GP- led transactions.
- Since the GFC, the secondary market has changed in scale even though the potential for further expansion continues to be very high.

The key participants to the secondary market are investors, sellers and buyers.

- Investors have increasingly acknowledged the benefit of secondary funds (attractive risk weighted returns, smoothing of J – curve, diversification, faster distribution) and their commitments are growing consistently over time.
- Based on their motivation to divest, sellers can be classified as distressed sellers, strategic sellers, tactical sellers, (most counterparties are transacting for strategic reasons).
- Other key participants to secondaries are the buyers growing in number and specialisation.

The pricing of secondary transactions reflects the evolution of the market and its dynamics

- Over time the market has accelerated its growth, expanded the universe of participants and has become more transparent and efficient in pricing formation.
- Key factors influencing pricing are the deal size, the underline assets quality, vintage of funds, portfolio effect, M&A and IPO environment.
- Pricing of secondary deals tends to follow the public market only in a limited capacity showing higher resilience (active ownership, long term focus, ect).

EXECUTIVE SUMMARY 2/2

2021 has been a blockbuster year for secondary funds

- . Record annual growth of volumes (first time above \$100 bn)
- . Pricing exceeding pre Covid 19 levels
- . Aggressive buyers environment, particularly on GP-led deals
- . Reduction in capital overhang notwithstanding a record year in fundraising

In the last 18 months, five secondary deals have been observed that involved Italian GP or portfolio companies

- . The deals observed amount to over €1 bn
- . Mainly GP-led transaction (continuation fund or top-up capital)
- . Only one Italian GP arranged a secondary transaction (top-up fund); in other cases foreign GPs transacted Italian portfolio companies

First part of 2022 has seen a complete turnaround since last year signing the entry into a new, volatile period

- . A number of factors have induced a radical change and growing uncertainty (inflation, geopolitical disruption, energy price, supply-chain blockage, rising interest rates, resurgence of Coronavirus in China, etc.)
- . Changing macro scenario, higher uncertainty of future growth, market down 20% since January, have made investors more nervous and hesitant
- . Secondary is well placed to offer soft landing solutions thanks to the reset of valuations and abundant capital to be deployed

The PE secondary market encompasses a wide variety of transaction types:

- . The sale and purchase of individual LPs positions in PE funds
- . The GP-led sale of a portion of a fund holdings in a new basket of unrealised investments (continuation and top-up fund)
- . The sale of direct owned investments in private companies, usually by financial institutions and corporates.

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Market Dynamics and Opportunities

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A view on 2021 and 2022 outlook

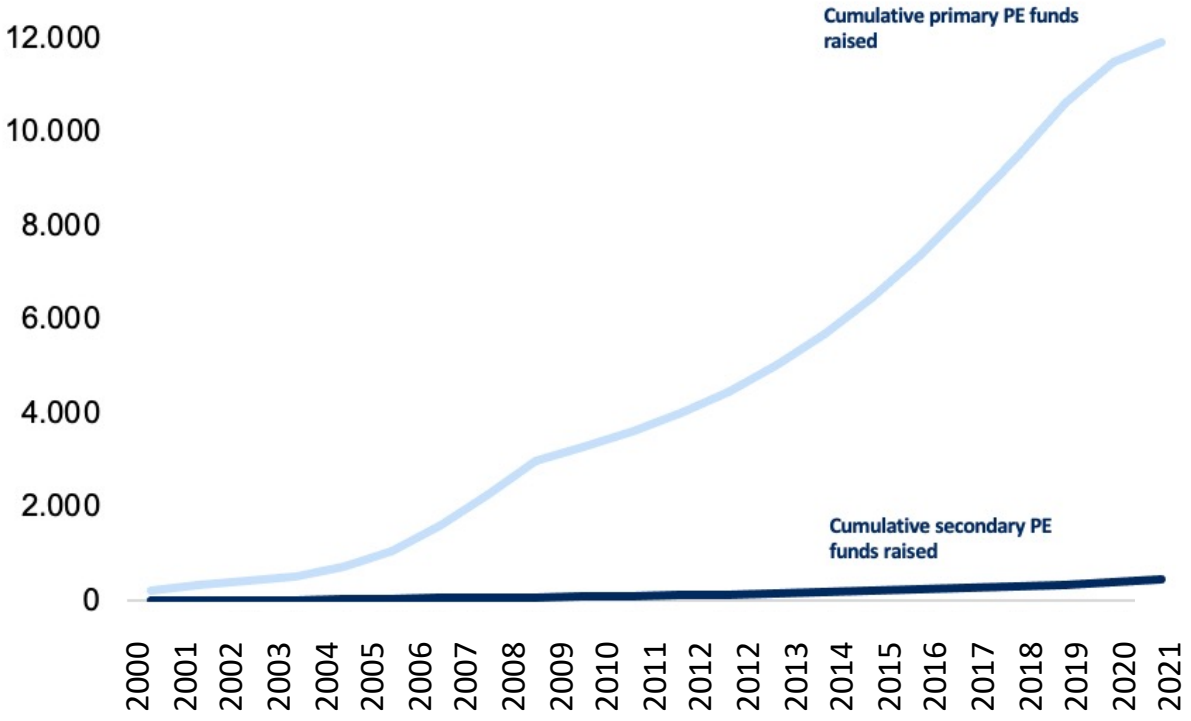
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Type of secondary transactions

1 EVOLUTION OF THE SECONDARY MARKET

The secondary offer liquidity solutions to investors that want to exit early from investment, rebalance the portfolios, modify their business model

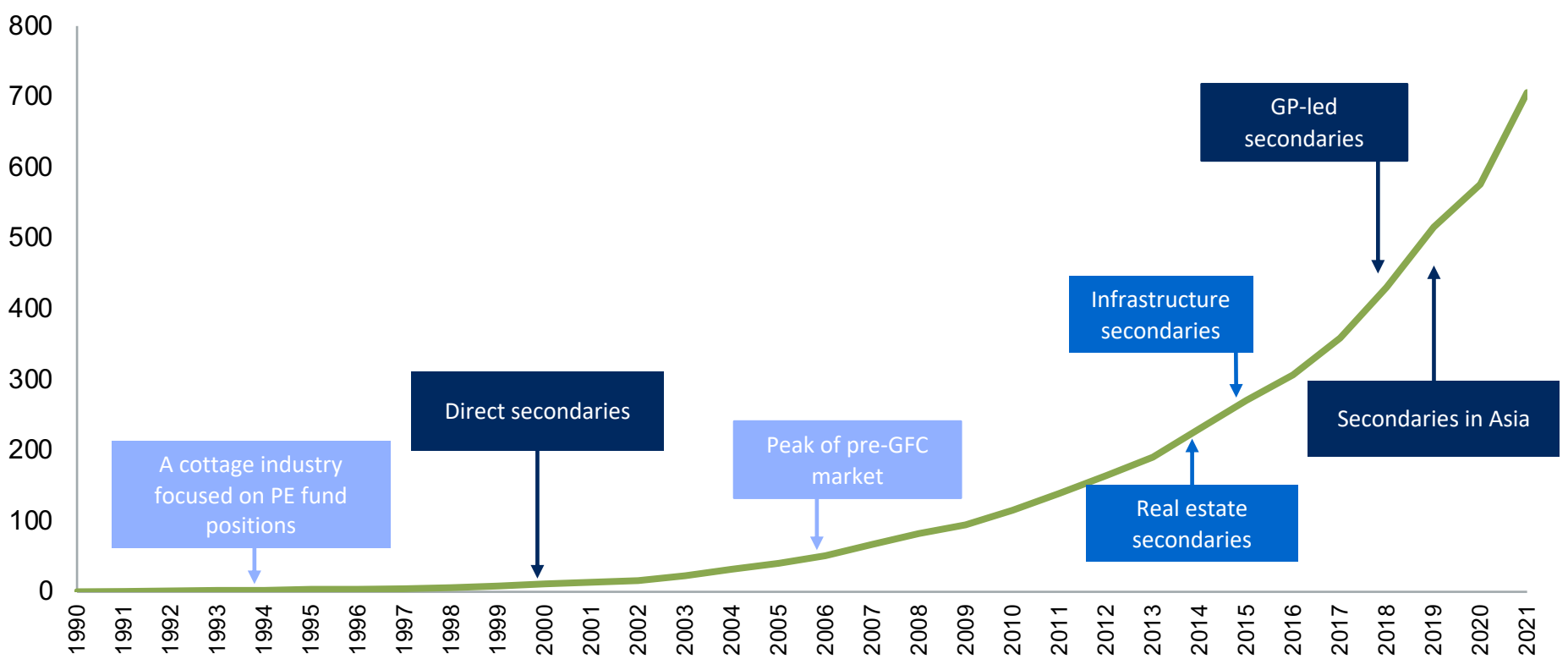
The primary / secondary private equity relationship (\$bn)



← *Secondaries offer liquidity solutions to individual investors* → ← *Secondaries become a tool for portfolio management and responding to structural / strategy change* →

1 EMBRACING A WIDE RANGE OF ASSETS

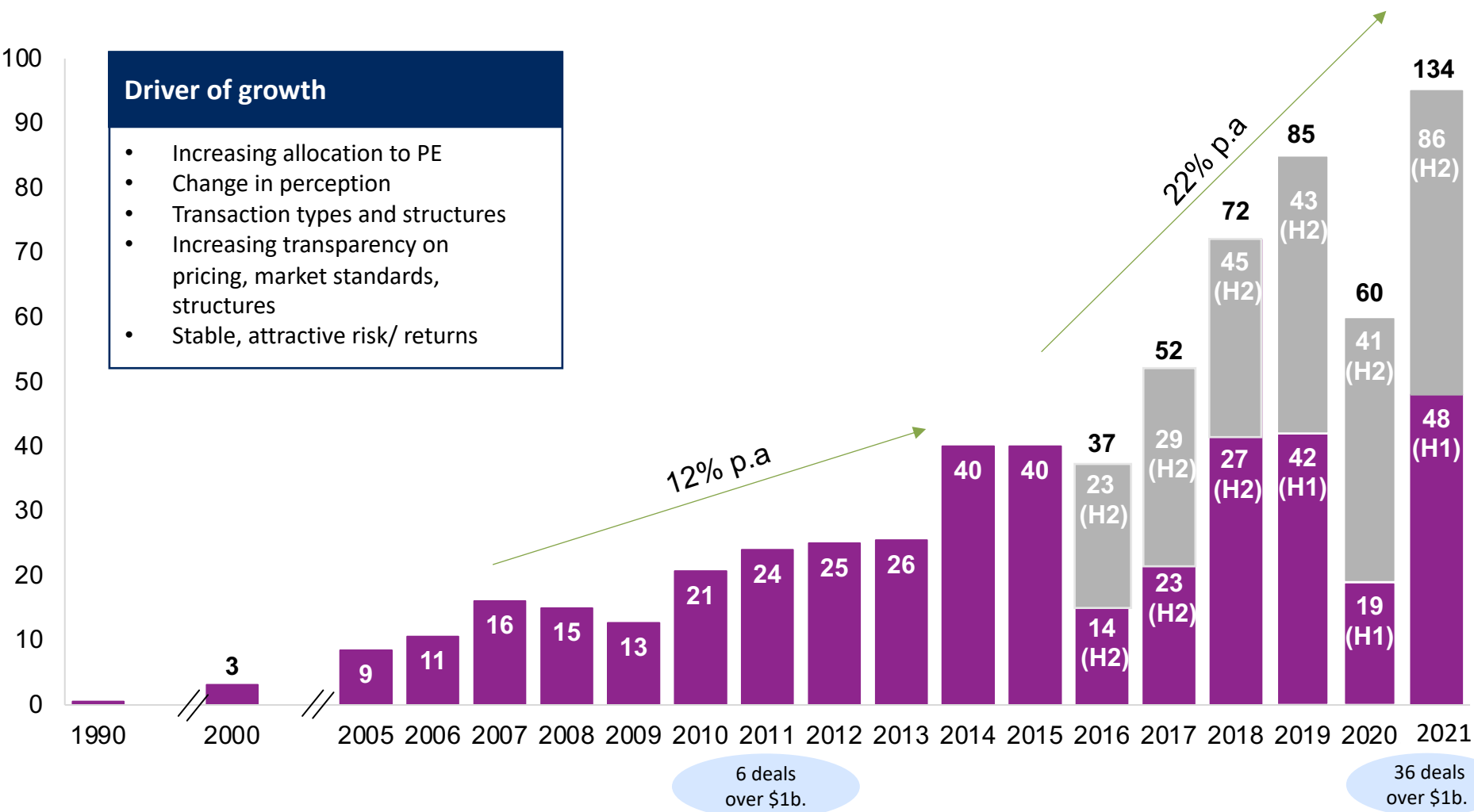
Cumulative annual secondary transaction volumes (\$bn)



Source: Collier Capital, based on market consensus as of 30 June 2021

1 SINCE THE GFC, THE SECONDARY MARKET HAS CHANGED IN SCALE

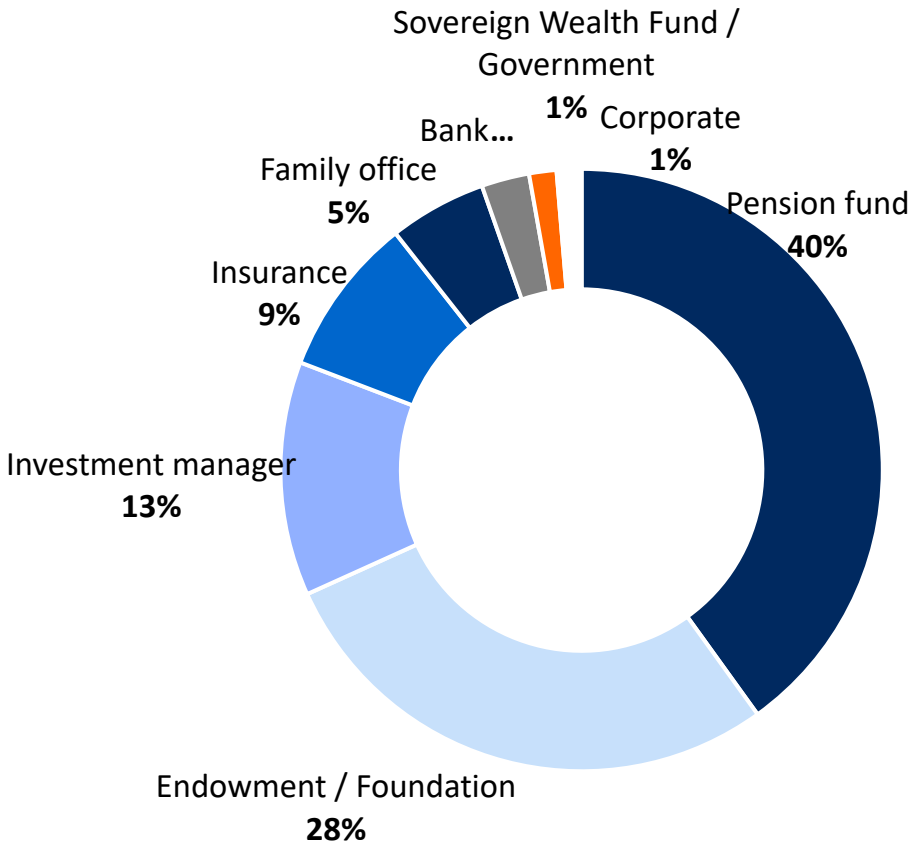
Private equity secondary transactions (\$bn) – 1990-2021



Source of historic market data: Collier Capital based on market consensus as of January 2022

1 WHO INVESTS IN SECONDARY FUNDS AND WHY

Investors breakdown by type

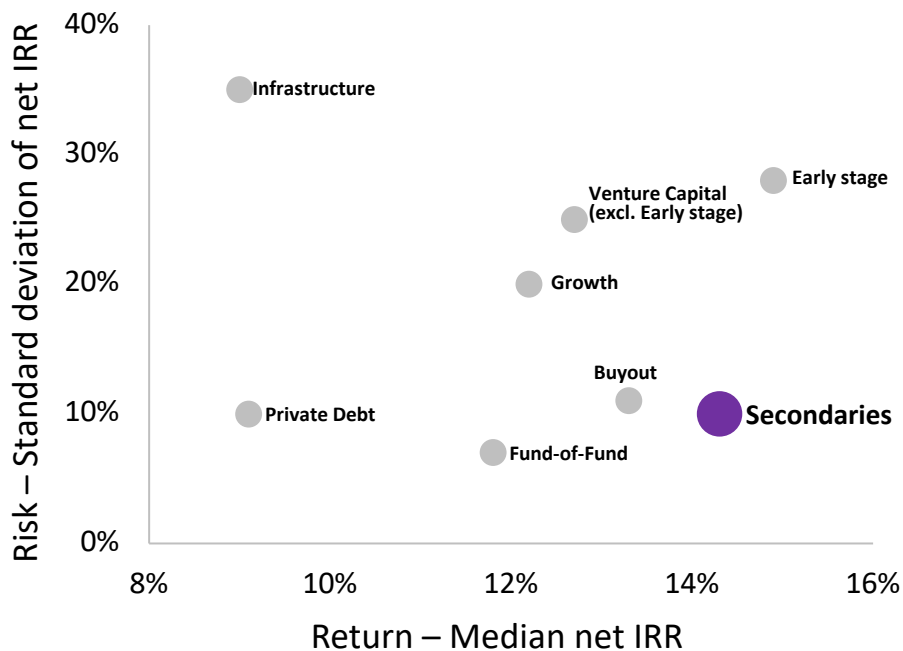


- ### Investors opportunities in secondary
- Attractive risk/ return profile
 - Diversification of assets
 - Mitigation of J Curve effect
 - Shortened holding periods and faster distribution

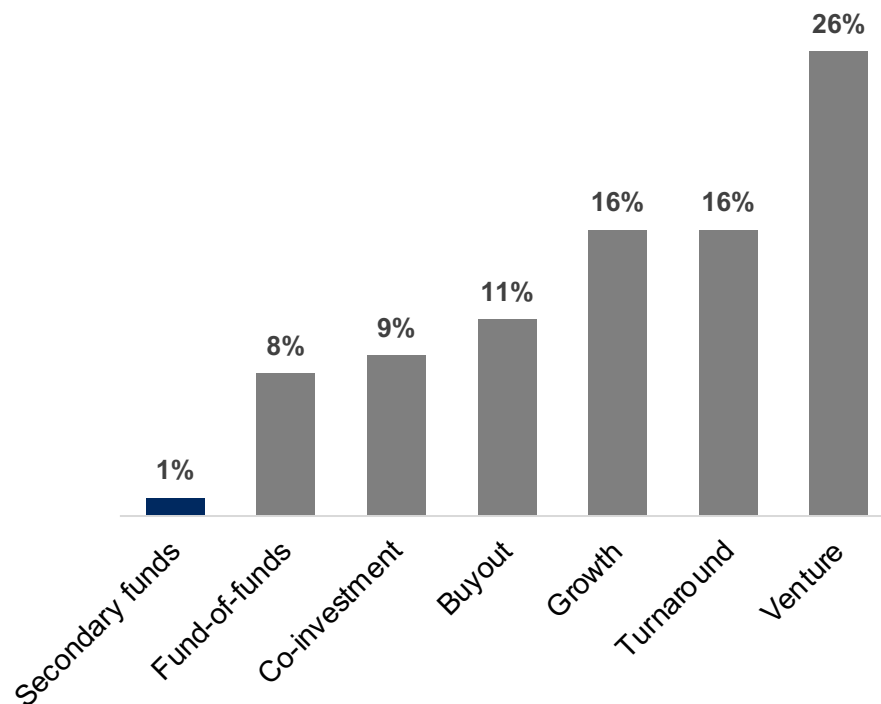
Source: Preqin as at October 2020, Coller Capital

1 SECONDARIES INVESTING HAS AN ATTRACTIVE RISK/ RETURN PROFILE

Risk/return profiles of PE strategies (vintages 2005-12)



Proportion of PE funds with net multiple <1.0x – by fund type over 30 years

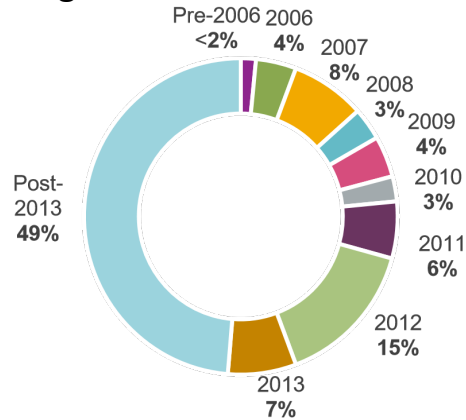


Source: Preqin as at January 2021

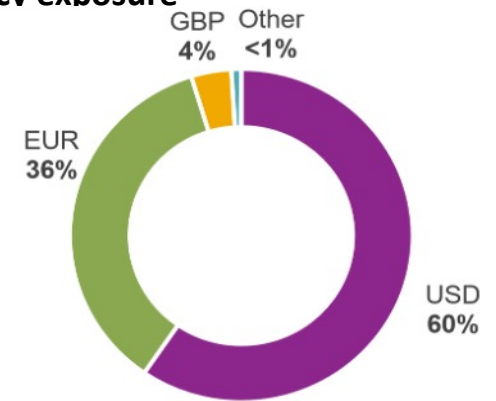
Source: Preqin. All private equity funds where performance is tracked on Preqin (from 1987 until 2017). This includes funds that have not been fully realized.

1 FMV – PORTFOLIO DIVERSIFICATION 2021

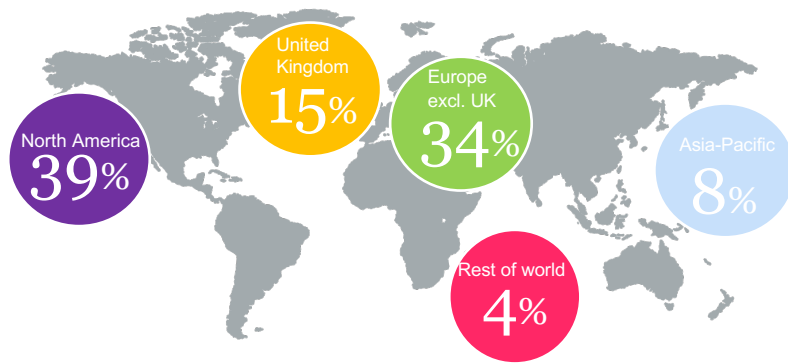
Underlying fund vintage (1)



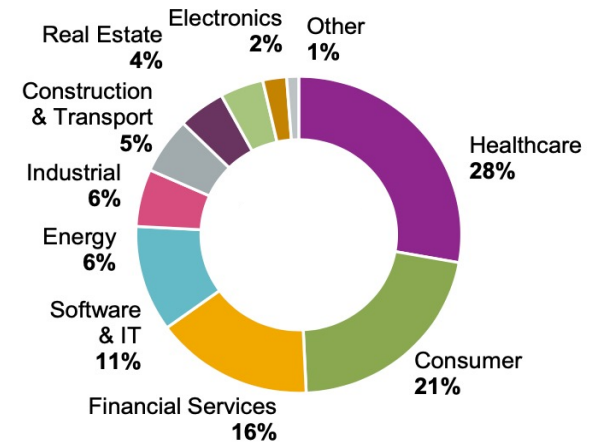
Fund – currency exposure (1)



Underlying portfolio company – geographic exposure



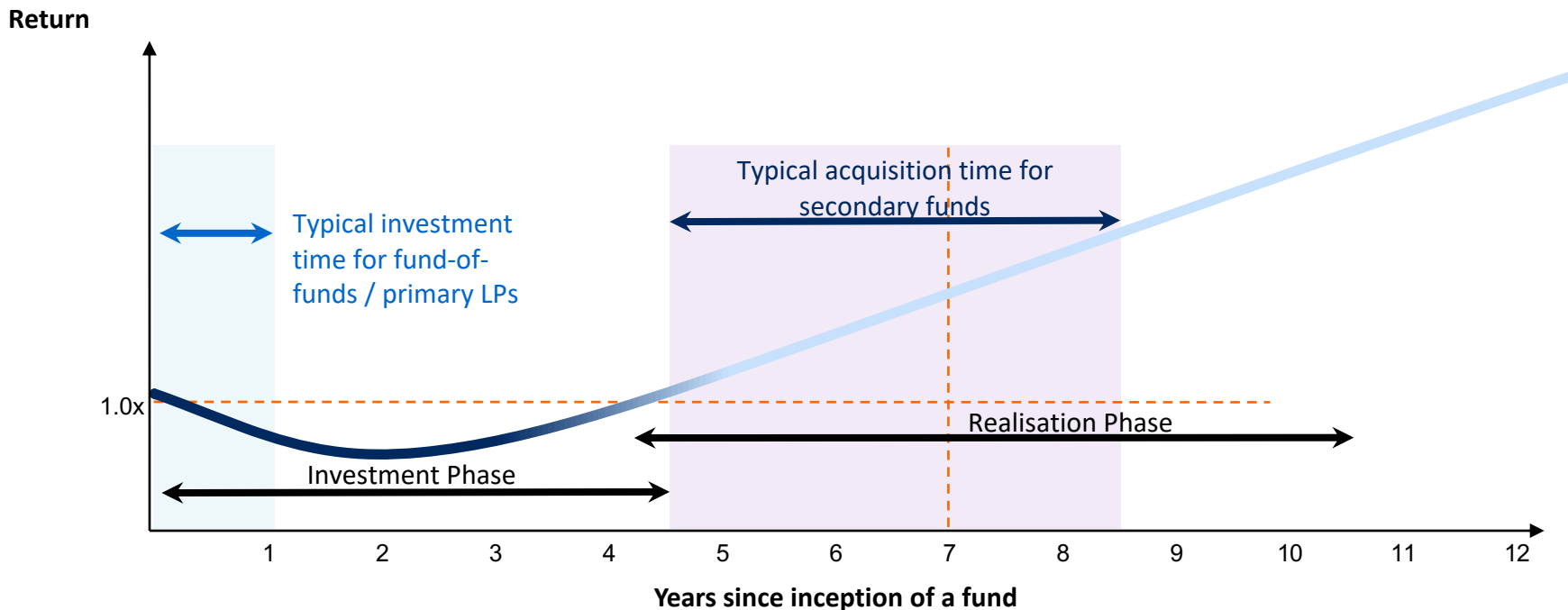
Underlying portfolio company - sector



(1) 2019
Source: Collier Capital

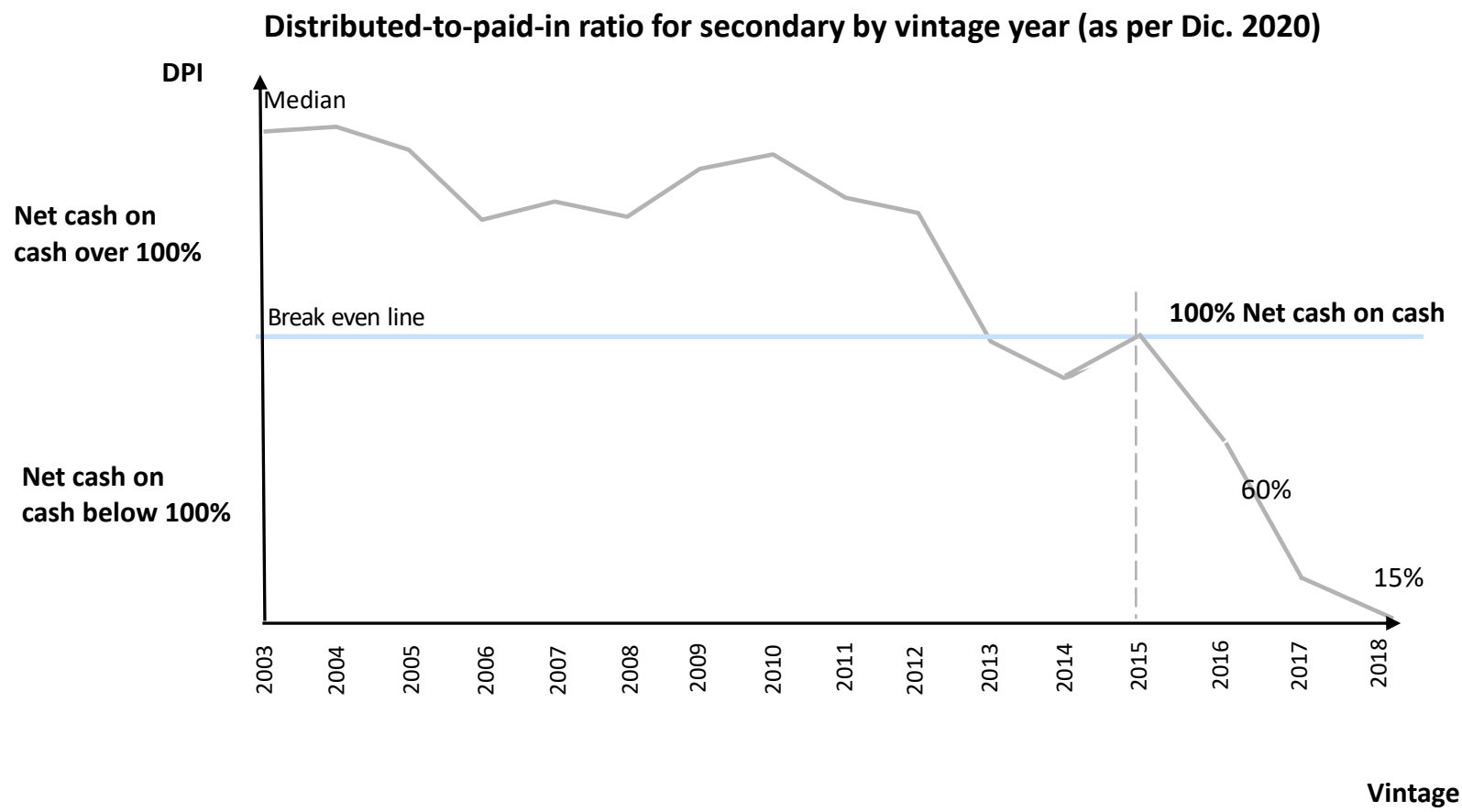
1 MITIGATING THE 'J-CURVE'

Secondary funds offset the period of initial negative performance inherent in private equity



Source: Collier Capital

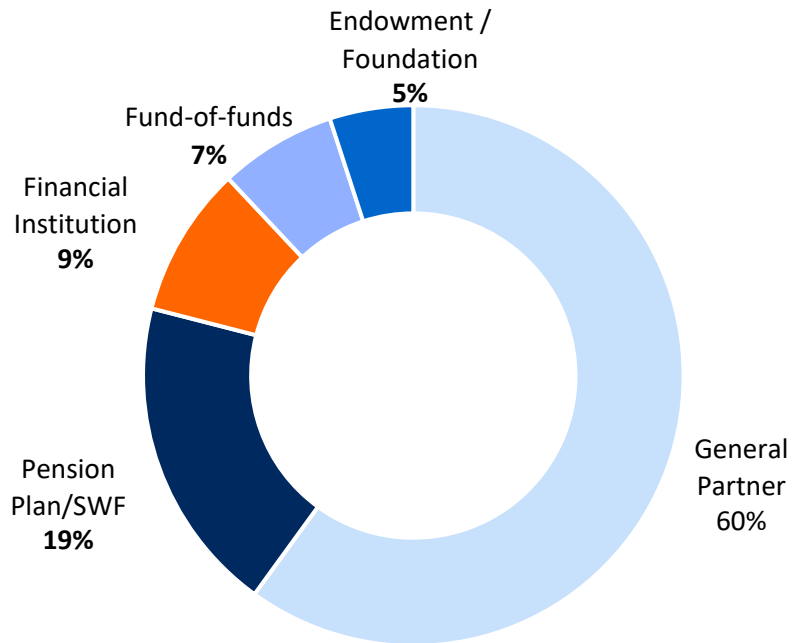
1 QUICK CASH DISTRIBUTION BACK TO INVESTORS



Source: Cambridge Associates data extracted on 20 July 2021

1 WHO SELLS TO SECONDARY FUNDS

Seller type – 2021 (H1)



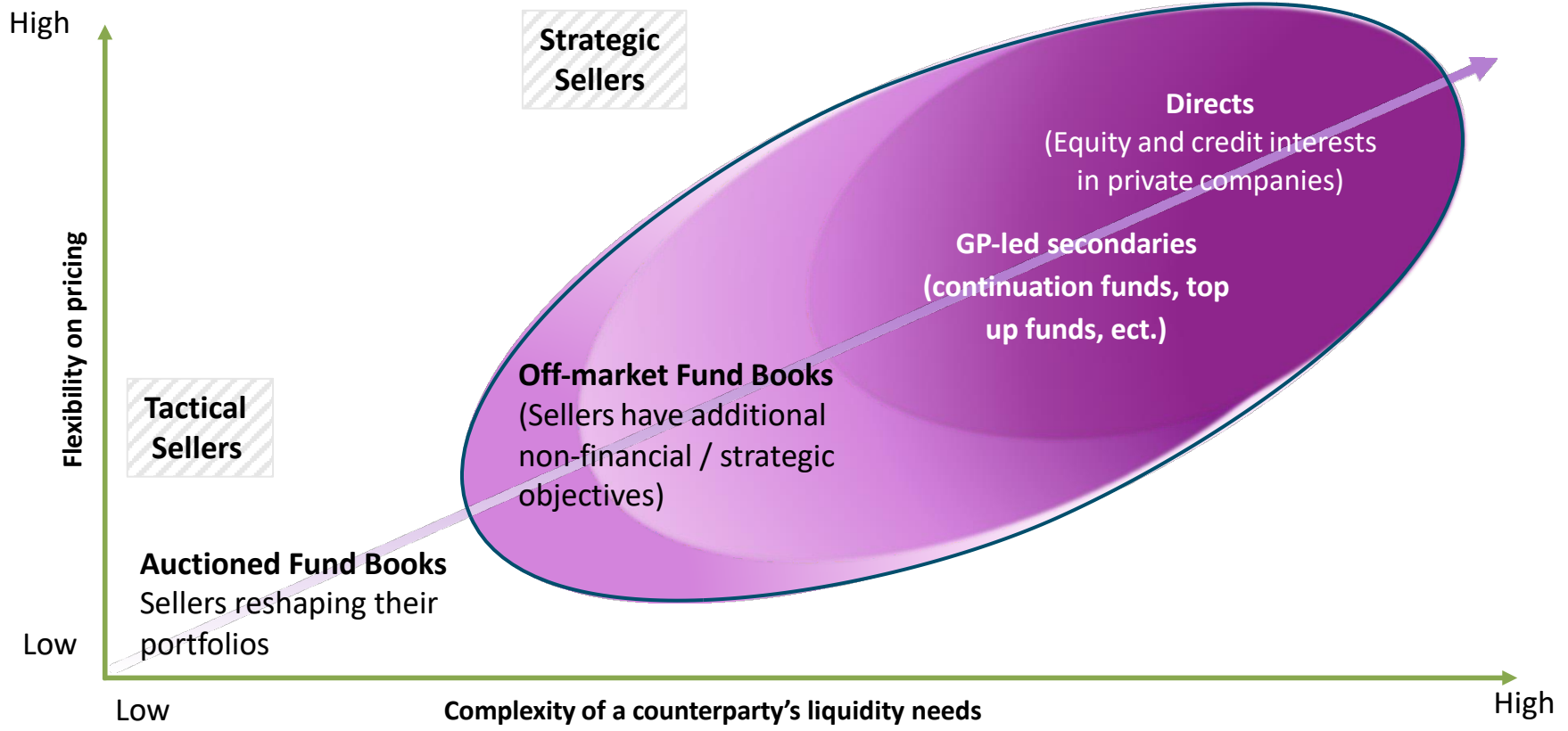
Sellers by motivation



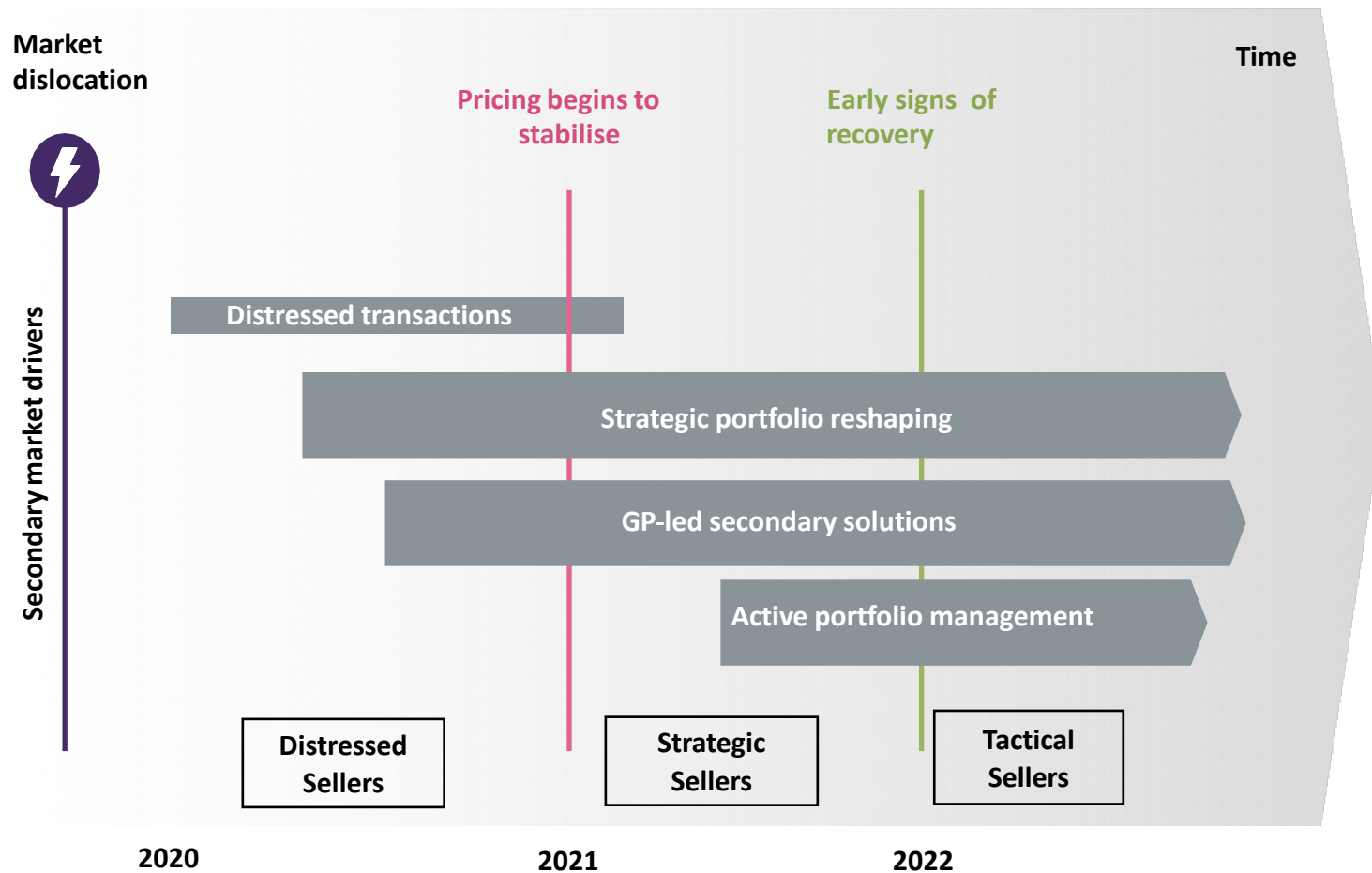
Source: Collier Capital, Campbell Lutyness and Evercore as of 30 June 2021.
Note: The above percentages are based on transaction volume.

1 TACTICAL AND STRATEGIC SELLERS

Most counterparties are transacting for strategic reasons

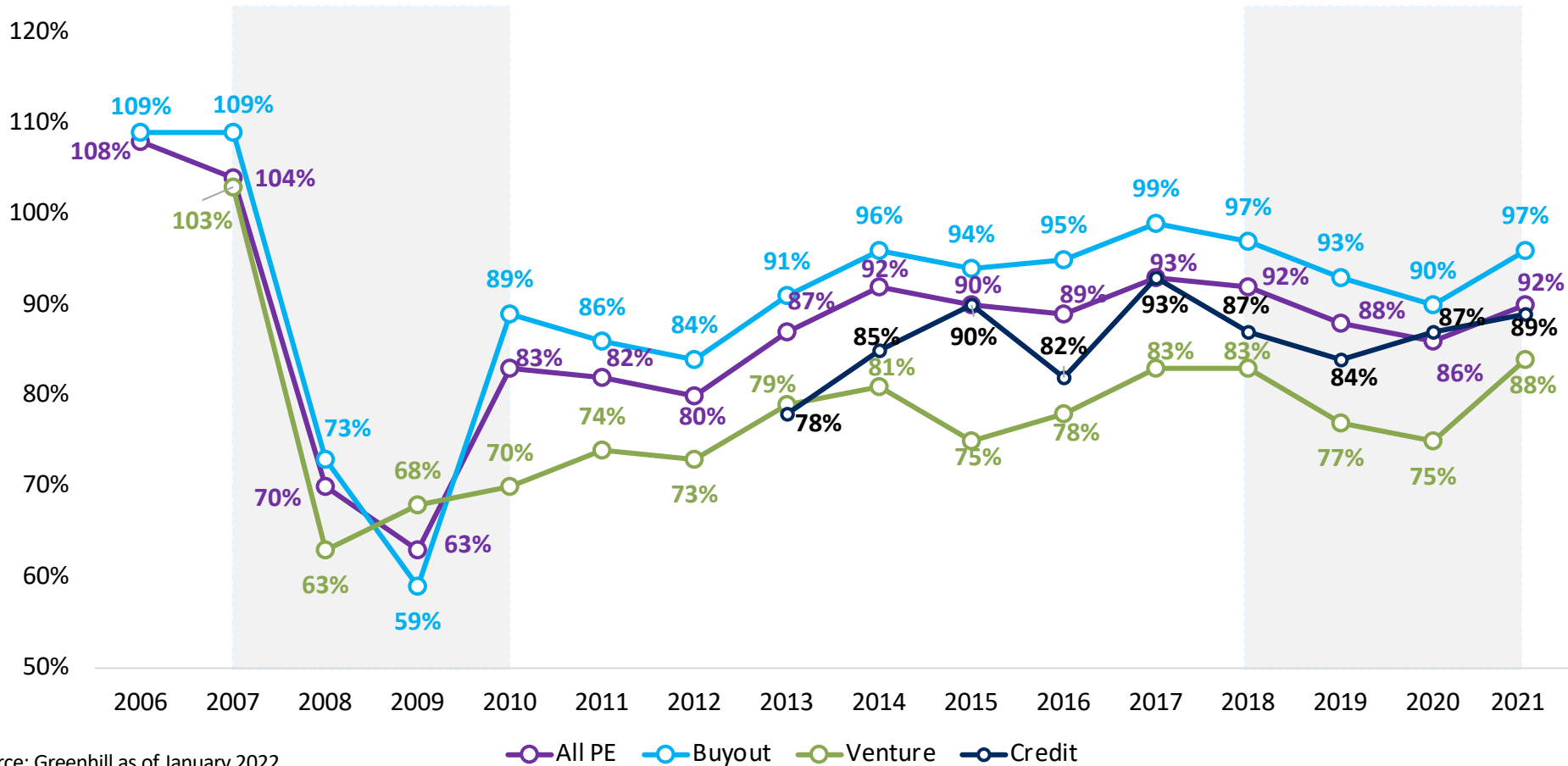


1 SELLERS' MOTIVATIONS TO DISPOSE OF ILLIQUID ASSETS



1 PUBLIC MARKETS' VOLATILITY AND UNCERTAINTY HAVE DRIVEN PRICING DOWN IN 2020

Average secondaries pricing as a % of NAV



Source: Greenhill as of January 2022.
 Note: Averages of each time period used for pricing.

1 PRICING DETERMINANTS

Deal size

Deals >\$ 100m in NAV attract a broader buyer universe

Vintages

Newer vintages (less than 5 years old) typically generate more buyers interest

Portfolio Effect

Bundling fund interests together can facilitate overall portfolio pricing (diversity premium, sale of less appealing assets)

Asset Quality

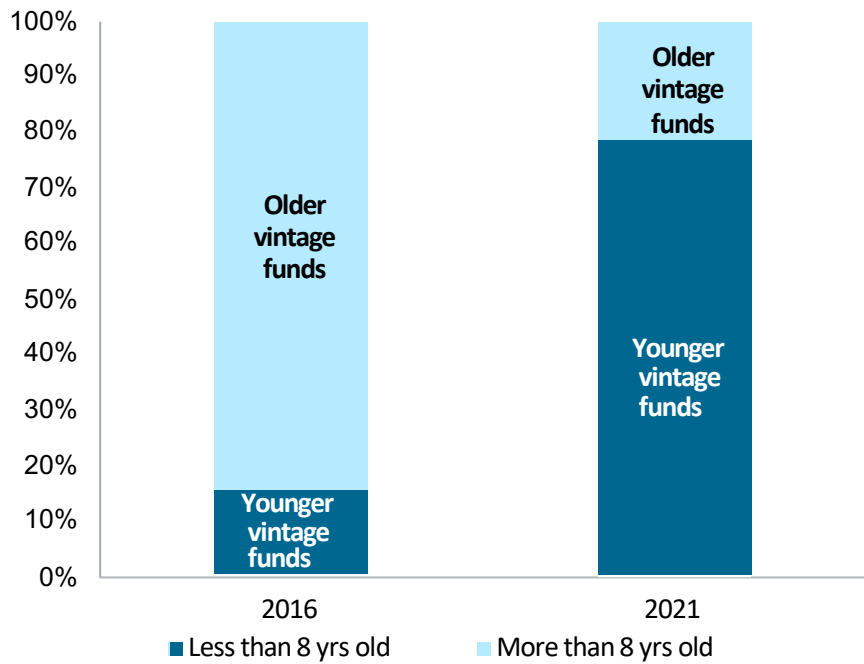
Lower discounts for high quality, high performing assets

Market effects

Increased valuations within a healthy M&A and IPO environment and from expanding market multiples

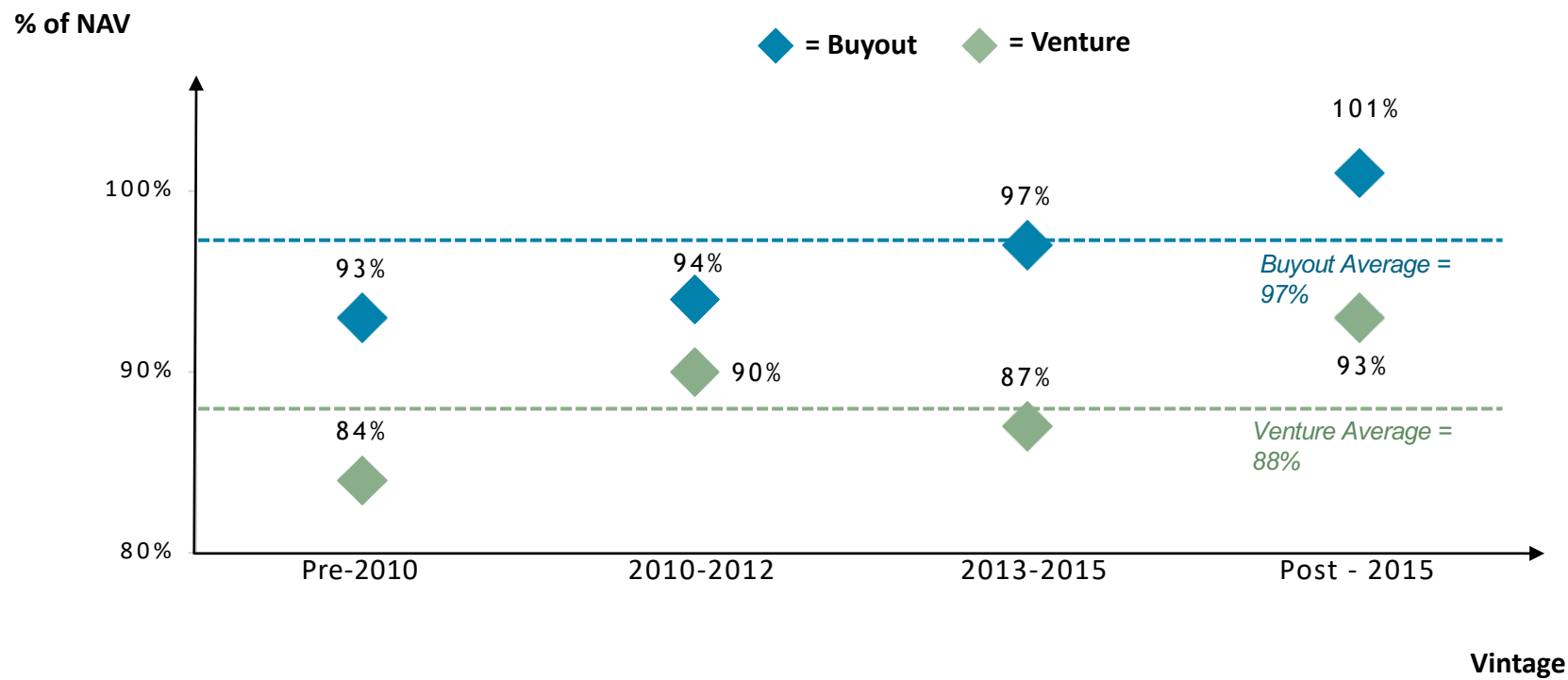
1 THE MATURITY OF FUNDS TRADED

**Maturity of funds acquired on the secondary market
(2016 vs 2021)**



Source: LHS: Cambridge Associates / Thomson Reuters One RHS: setter Capital and Greenhill

1 LP PORTFOLIO PRICING BY VINTAGE IN 2021 (% OF NAV)



Source: Jeffries, Global Secondary Market Review 2022

2 AN OVERVIEW ON 2021 SECONDARY WORLDWIDE

Record annual level of volume

- \$ 134 m
- 120 % on 2000, 50% on 2019
- 60% by 10 most active buyers

Deal flow driven by increase in NAV

- Stable and supportive post Covid macro backdrop
- Strong post Covid economic performance by portfolio companies
- Buoyant public markets
- Strong buyers appetite to deploy capital

Sponsors taking advantage of aggressive buyer environment

- Growth of GP-led share to 48% of annual deals
- Single and multi asset continuation funds at 84% of total GP-led

Rebound of large Portfolio Sales in 2H

- Buyers rebalancing overallocation to more concentrated GP-Led transaction (end of year)
- Preferences for tail-end funds with near term liquidity (preferences for top quartile large GPs, later stage venture and growth funds)

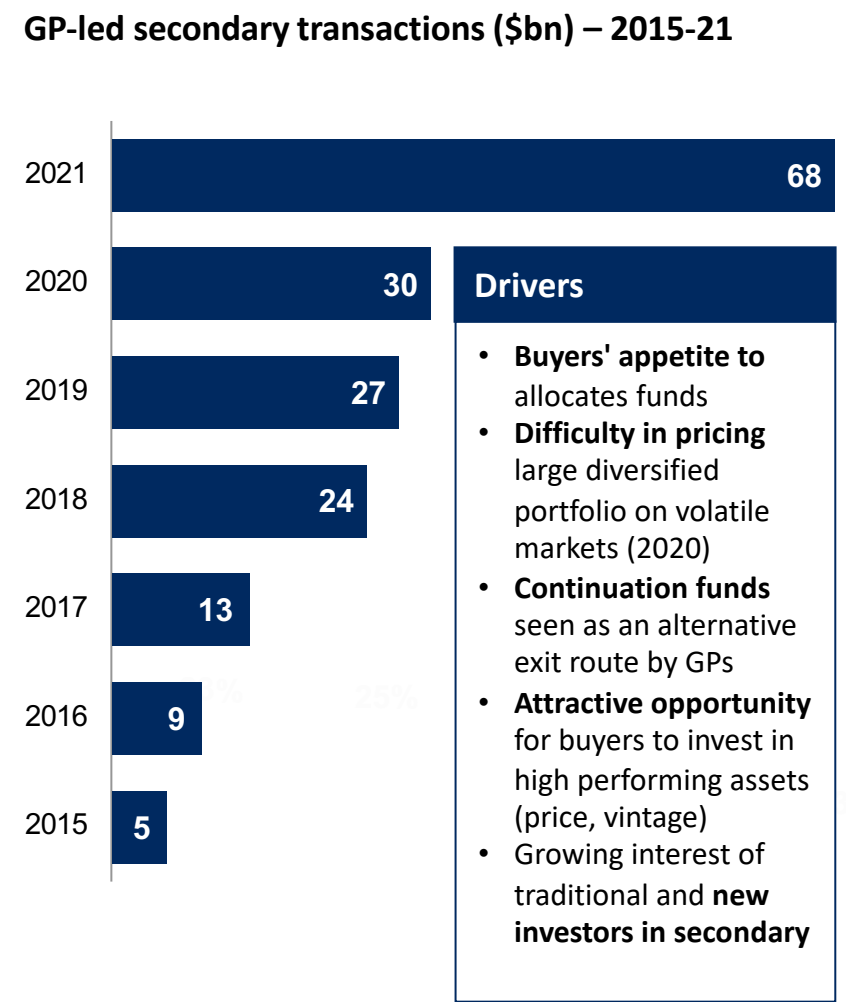
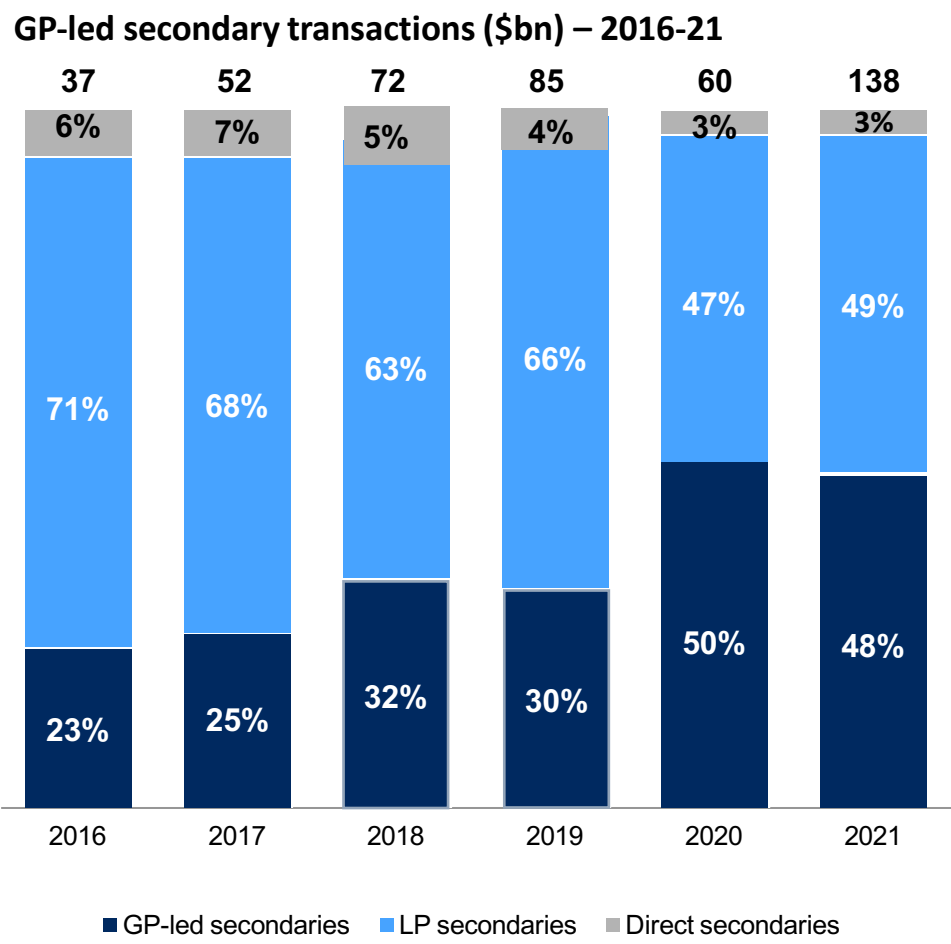
Pricing exceeding pre Covid-19 levels

- Average high bid at 91%
- Pricing uplift driven by more diversified portfolios and increasing specialization of buyers

Reduction of capital overhang

- From 3,1 x (2020) to 1,8 x (2021) notwithstanding a lively fundraising throughout the year

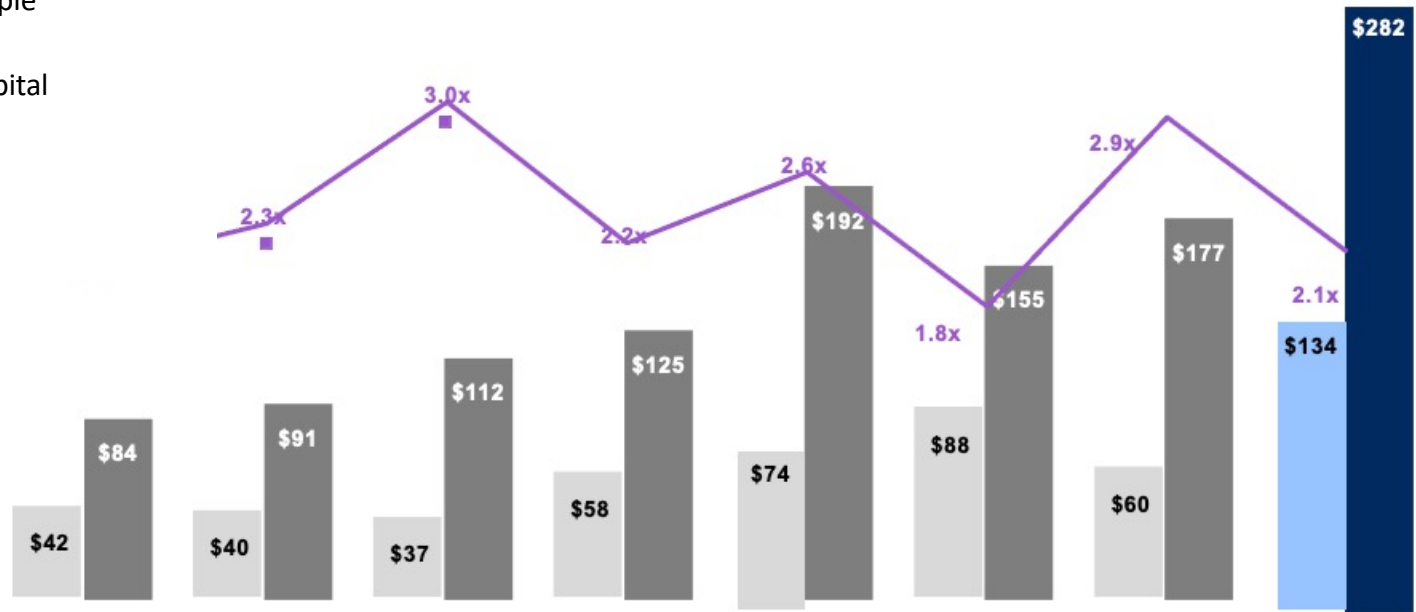
2 THE GROWTH IN GP-LED SECONDARIES



Source: Collier Capital

2 YEAR END HISTORICAL CAPITAL OVERHANG (\$B)

- = Capital Overhang Multiple
- = Dedicated Available Capital
- = LTM Secondary Volume



Capital Overhang Δ	2014	2015	2016	2017	2018	2019	2020	2021
	+0.2x	+0.3x	+0.7x	(0.8x)	+0.4x	(0.8x)	+1.1x	(0.8x)

Source: Greenhill data

2 RECENT DEALS IN THE ITALIAN LANDSCAPE

DATE	TYPE	SELLER	BUYER	DESCRIPTION	VALUE	PORTFOLIO
Jan 2021	GP-led Continuation	Hellman & Friedman Capital Partners II	Hellman & Friedman Capital Partners IX	Hellman&Friedman acquired with the new fund, H&F IX, its own participation in Team System from the previous fund II	n.d.	TeamSystem SpA (software)
Jul 2021	GP-led Top-up	Aliante III LPs of Aliante III	Pomona Capital	Pomona Capital provided preferred equity to Aliante through two tranches: one for liquidity option to existing LPs and the other for portfolio add-on acquisitions	€ 160 M	Morato Pane (Food) Armando De Angelis (food) Acetificio Carandini (food) Contri Spumanti (food) Faram (furniture)
Sep 2021	GP-led Continuation	CapVis Equity III	CapVis (rollover fund)	CapVis Capital launched a roll-over fund for the acquisition of the portfolio owned in a previous fund (in liquidation)	€ 230 M	Arena SpA (tech clothing) Hessnatur (eco-clothing) Kaffee Partner (food)
Nov 2021 ¹	GP-led Continuation	Investcorp	Investcorp European Buyout Fund 2019 (secondary fund)	Coller Capital provided funding in a \$ 1 bn Investcorp continuation vehicle to acquire a portfolio of six companies from previous Investcorp fund	€ 870 M	Dainese SpA (tech clothing) Other 5 companies
Apr 2022	GP-led Continuation	HIG Europe Fund I	HIG Europe Realty Partners III	Kartesia, by its Opportunities I fund, funded HIG in order to transfer the single participation from its previous fund	n.d.	SIAT SpA (packaging)

(1): The continuation vehicle has been established in January 2019. The Dainese SpA deal has been closed in November 2021

2 2022 SECONDARY MARKET OUTLOOK

Situation today

- Soaring energy price
- Supply chain disruption
- Geopolitical outbreak
- Rising inflation
- Tightening monetary policies
- Resurge of Coronavirus in China (and US)



A new and volatile period

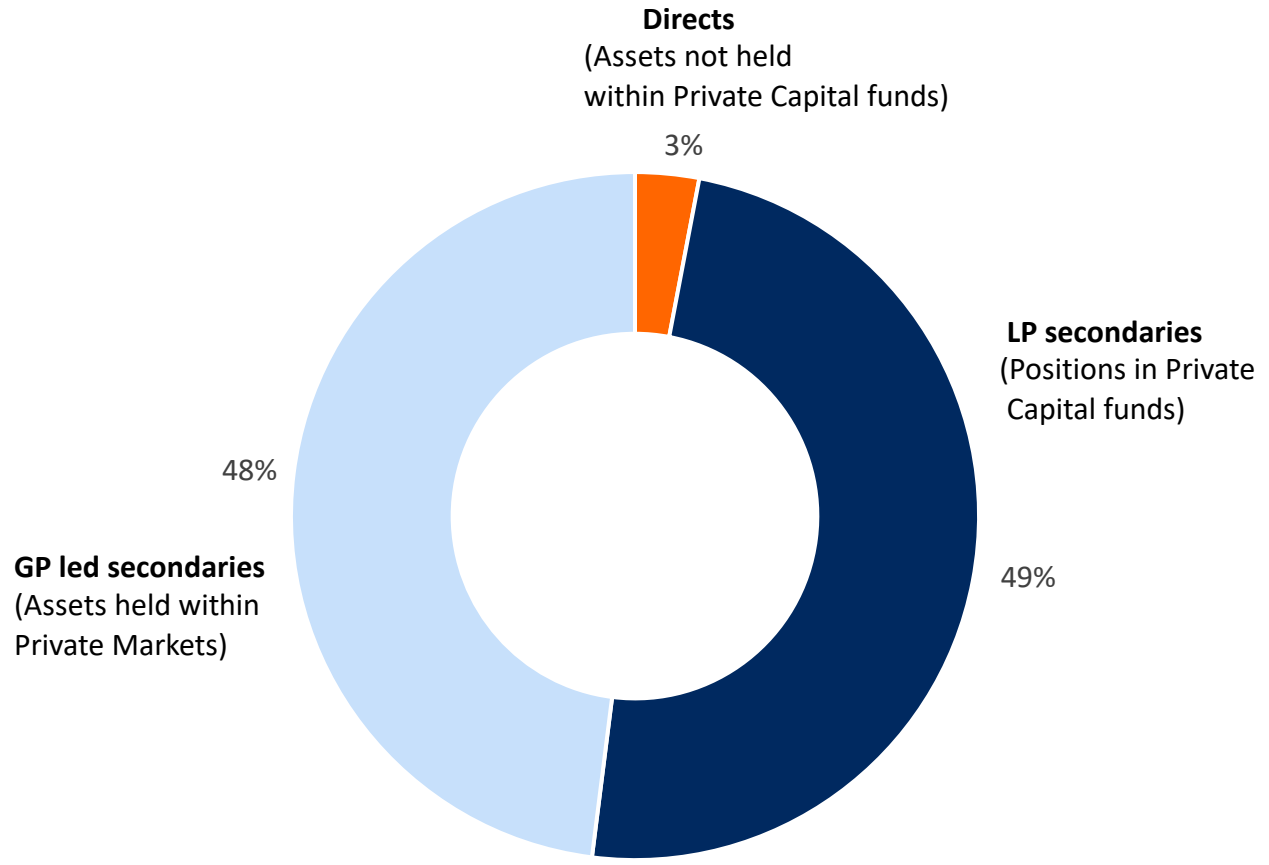
- Changing macroeconomics conditions
- Future Path of Growth uncertain
- Market down 20% since January and return of volatility
- Investors more nervous and hesitant

2022 Expectation for secondary market

- Further growth of volumes
- Healthier valuations and higher pricing dispersion
- GP led segment further growth (multi and single assets)
- Focus on high quality, high performing assets
- LP led activity unpredictable (strategic more than tactical sales expected)
- Vibrant fundraising activity with increasing specialization of buyers

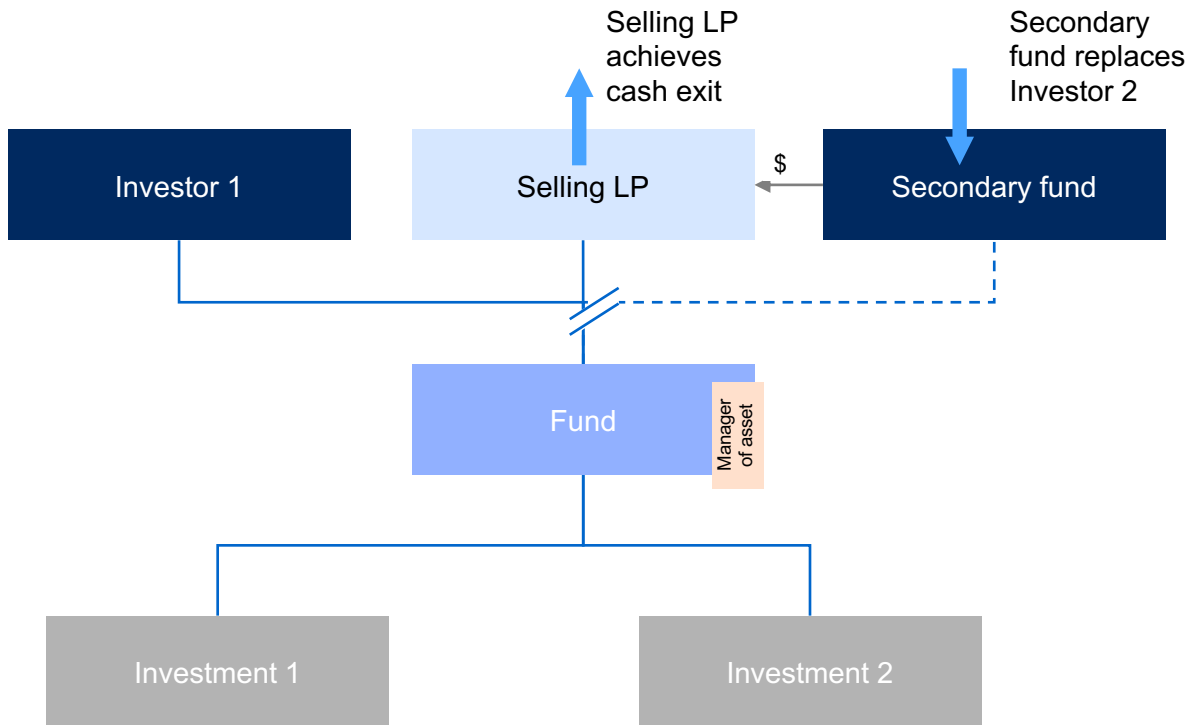
3 WHAT TRANSACTIONS GO TO SECONDARY MARKET

Transaction type - 2021



Source: Market consensus as of January 2022(Coller, Greenhill, Evercore, Campbell Lutyens, Setter Capital, Audit Suisse, Lazard)

3 LP – LED ILLUSTRATION: LP SECONDARY TRANSACTION

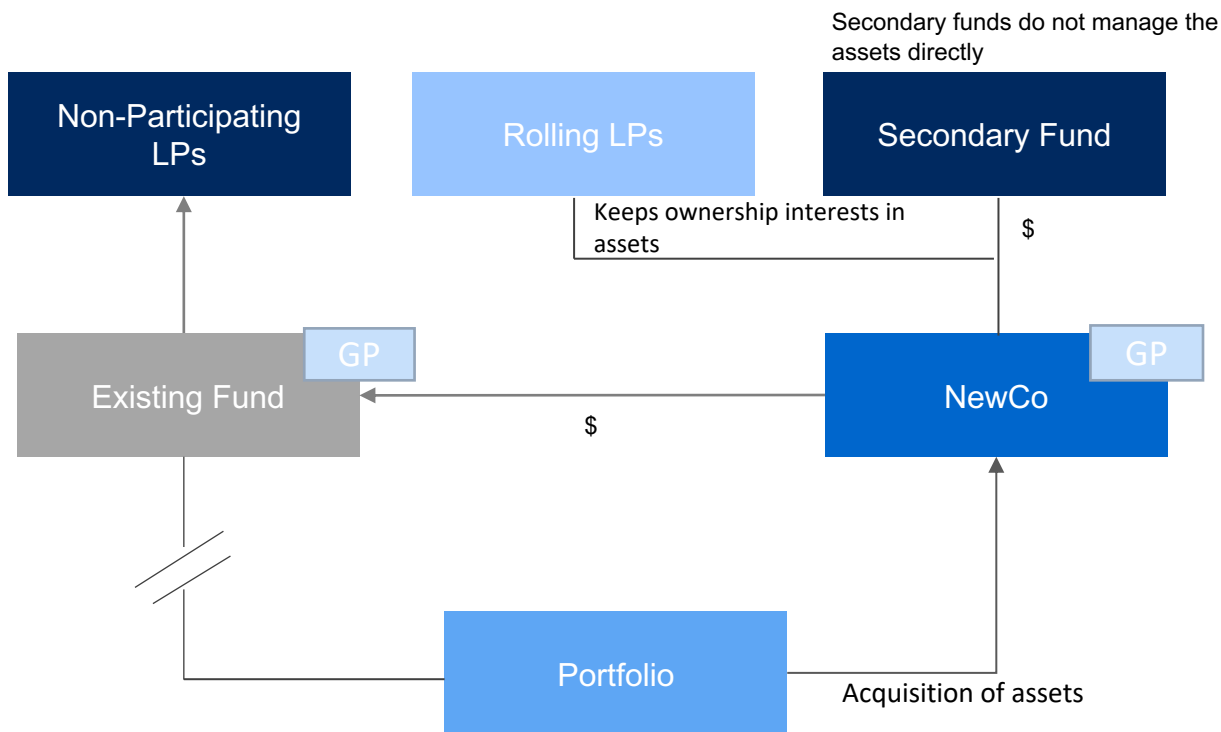


Why LPs make use of the secondary market

- To obtain early liquidity
- To implement changes in strategy or asset allocation
- To adjust to new regulatory requirements
- To 'lock in' returns

Replacing investors in funds and assuming their obligations

3 GP – LED ILLUSTRATION: CONTINUATION FUND

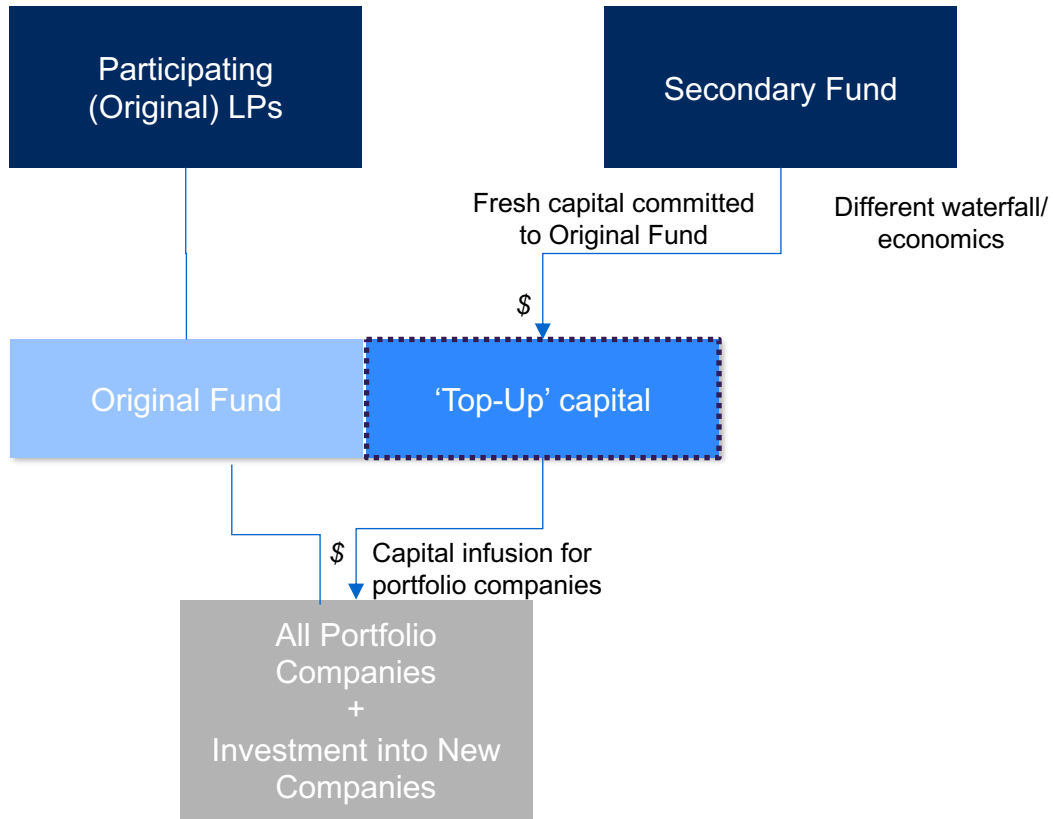


Why a GP may use this secondary market transaction:

- Portfolio companies **require more time** and/ or capital to maximise their full value
- A new SPV is formed to **purchase the assets** from the existing fund
- Existing LPs get the **right to rollover** their exposure to the new SPV, otherwise they get liquidity
- The GP manages the new SPV going forward, **ensuring continuity** with the portfolio companies' management teams
- The GP is incentivized via economics on the new SPV

Providing liquidity to an existing fund while allowing the GP to continue managing the assets

3 GP – LED ILLUSTRATION: ANNEX FUND ('TOP-UP' CAPITAL INFUSION)

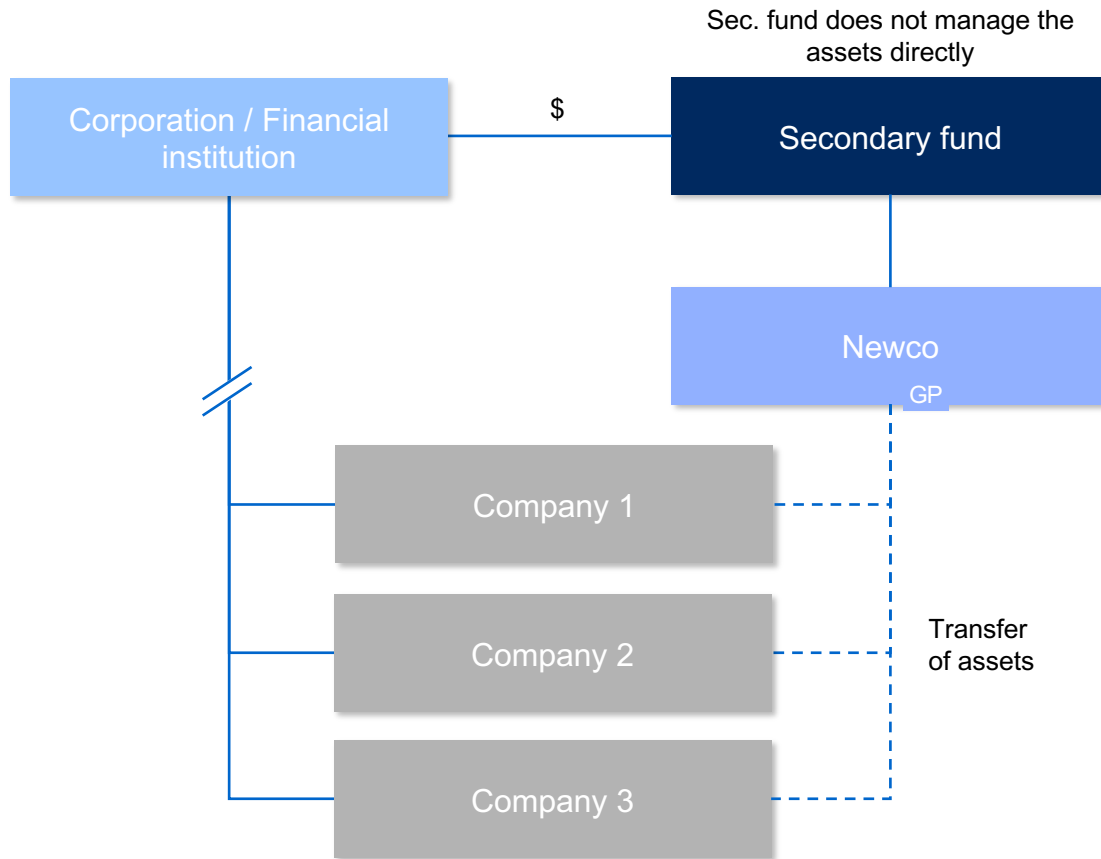


Why GPs make use of top-up capital:

- Additional capital for assets that **need more capital** to maximize value
- Capital is **injected into the original fund** – no need to manage a separate fund
- Original LPs have the **option to commit** a certain amount of the 'top-up' capital
- Companies requiring capital infusion **receive fresh capital** from the fund
- GP can continue managing assets with an opportunity to **earn additional fees and carry** (subject to LP approvals)

Secondary Fund values, structures, and underwrites the 'top-up' capital infusion

3 ILLUSTRATION: DIRECT SECONDARIES



Why financial institutions use the secondary market

- To generate cash / improve liquidity
- To implement changes in strategy
- To adjust to new regulatory requirements
- To avoid the time and cost of selling assets piecemeal
- To spin out asset management teams

Acquiring portfolios of directly held assets