

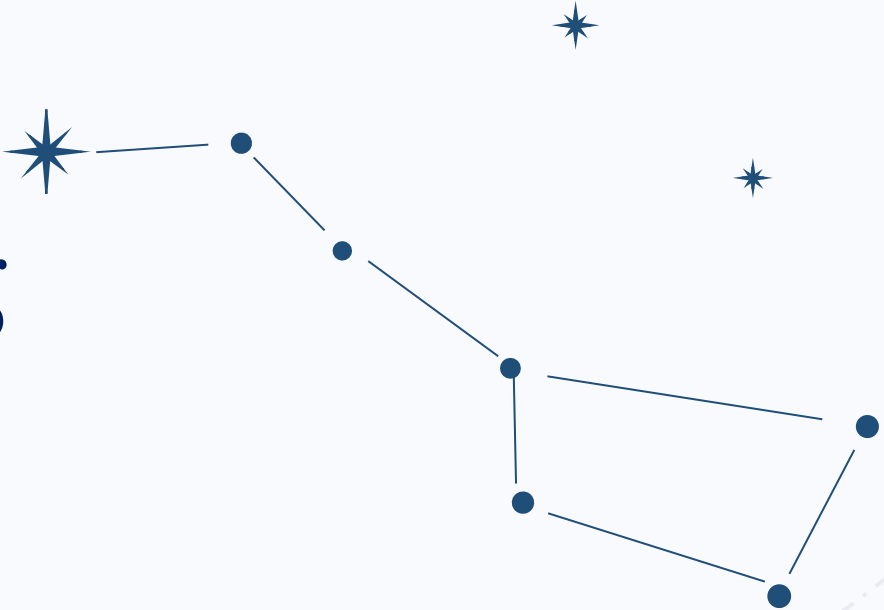


# Secondaries Fund Investing

Opportunities and Challenges

STRICTLY CONFIDENTIAL – EXCLUSIVE FOR CALISTA CLIENTS

2023 Q4



# Secondaries Genesis

## Why secondaries exist

### Secondary transactions allow for transfer of interests and assets from private equity funds

First coming onto the scene in the 1980s, the Secondary market has exploded over the past couple decades in line with the overall PE market. Initially **a method of LPs releasing equity in their investments** into private vehicles, secondaries have evolved into their own asset class.

There are two major types of secondary transactions, **LP-led and GP-led (including secondaries directs)**, which dictate how the transaction takes place. In both cases, however, the overall principle is similar in that you are **acquiring the previous interests and assets** of fund which either an GP or LP was invested into. These transactions will be tailored for the specific scenario in order to fit the need of the given parties in the transaction.

### Key Industry Players:



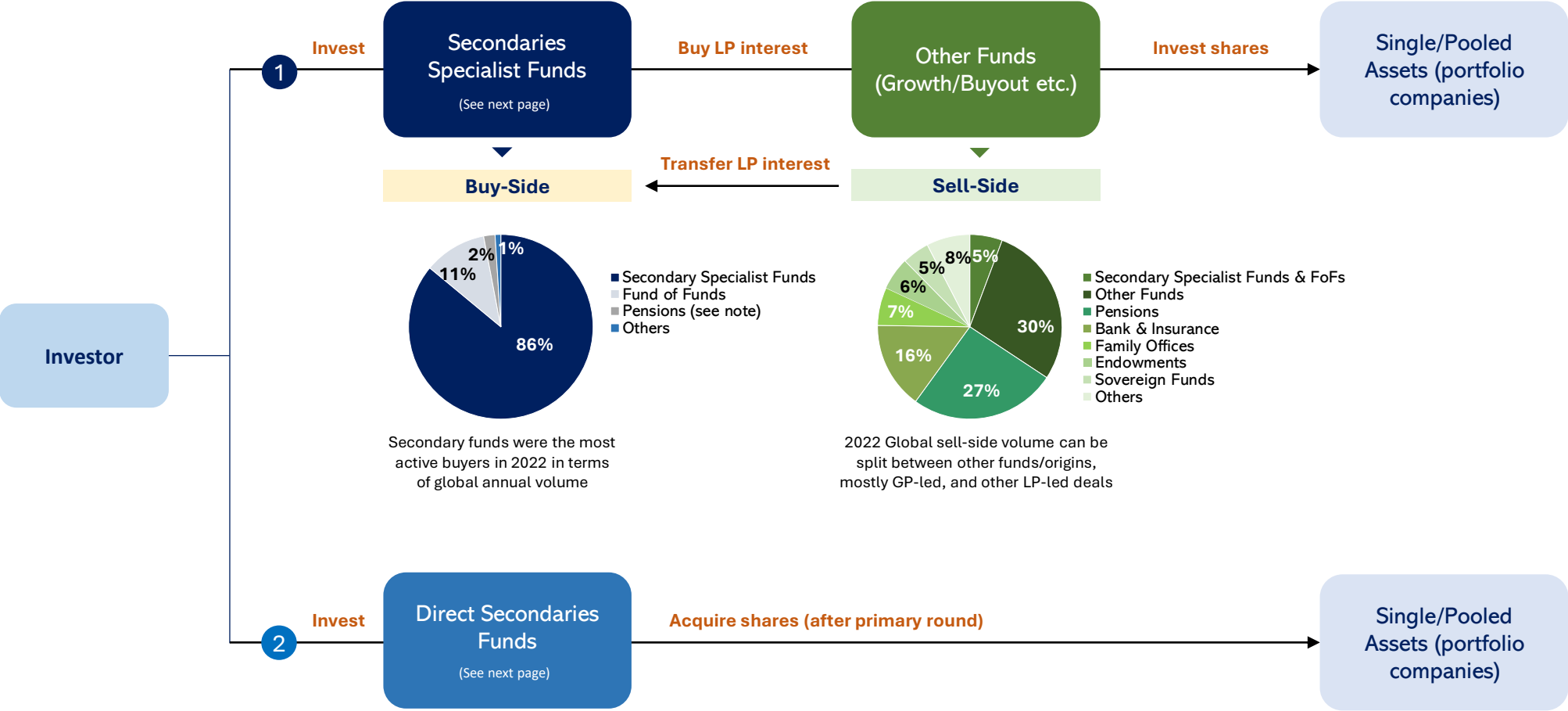
# The Current Trends

Current trends are favorable to secondaries going forward

	Trend	Comments
1	Secondary transactions will benefit from attractive entry points	<ul style="list-style-type: none"> <li>▪ <b>Rising interest rates</b> are putting <b>downward pressure</b> on many asset prices and can be seen in the markdown of private equity assets, especially LBOs</li> <li>▪ Secondary funds are able to use these mark downs in NAV to acquire interests in the funds or assets at <b>attractive prices</b> in comparison to a bull market</li> </ul>
2	It is expected that activity volume increases compared to 2022	<ul style="list-style-type: none"> <li>▪ Many LPs currently have <b>cash flow problems</b> from their private equity portfolios and so look to <b>free up liquidity</b></li> <li>▪ This in addition to GPs looking to <b>move prized assets to continuation vehicles</b> will likely increase the number of potential secondary transactions and boost overall activity</li> <li>▪ Demand is also being driven by the <b>reduced ability of exits</b> through M&amp;A or IPOS</li> <li>▪ <b>Private Credit and Infrastructure secondaries</b> are also trending to grow into the largest segment of the market</li> </ul>
3	Dry powder should help sustain secondaries activity	<ul style="list-style-type: none"> <li>▪ The <b>level of dry powder in 2022 was relatively lower</b> in comparison to 2021, due to the amount of <b>capital which got deployed</b> in the course of 2021</li> <li>▪ In 2023, a <b>positive fundraising outlook compared with other asset classes</b> should alleviate some of this downward pressure, while overall the market remains congested in H1 2023</li> </ul>
4	The gap between GP-led and LP-led deal number will continue to shrink	<ul style="list-style-type: none"> <li>▪ The usefulness of GP-led secondaries to <b>GPs who wish to hold onto their top performing assets</b> has been highlighted</li> <li>▪ Increasing <b>interest rates will likely reduce buy-out activity</b> and therefore limit the number of potential exists, or at least the price which can be received</li> <li>▪ GPs may therefore wish to hold on to more of these assets until they can <b>realize their true value</b></li> </ul>

# Value Chain

How to embark in secondaries



# Secondary Advantages

What are the general advantages and challenges of Secondaries for all counterparties

## General Partner (GP)

PE Fund Manager (VC, Buyout, PE RE, Infra funds, etc.)

- Increase the **stability** of the fund with **smoother cash flows**
- Efficient **portfolio management**
- Access to **diverse alternative capital** sources from all investor types
- Ability to remain **control of trophy assets** even after the end of a fund life
- Gain **faster liquidity\***

### GP-Led

- Conflict of interests
- Exposing fund value with **confidentiality issue**
- Finding suitable LPs

### LP-Led

- LP buyer could have **undesired profile**
- Blocking LP seller from sale might lead to litigation

## Limited Partner (LP) - Seller

Existing Investor into PE funds, under GP management

- Achieve **liquidity** from sale of PE position
- **Flexibility** to reallocate to other assets due to rebalancing and house cleaning
- Inability to fund **future commitment**
- Shortened lock-up period
- **Reduce PE overallocation** after 2020 outsized gains

### GP-Led

- Pricing agreement
- **Short timeframe** for due diligence
- Valuation supervision
- Asset level **due diligence required for roll-overs**

### LP-Led

- Need **GP approval** depending on contract terms

## Limited Partner (LP) - Buyer

Replacing Investor into PE funds, mostly a Secondaries firm, such as Coller

- **Avoid a deep J-curve**
- Possibility to **enter with IRR upside**
- Shorter period to receive distributions
- **Clearer valuation** with a view on discount
- **Limited blind pool risk** and better picture of fund performance
- Access to high quality, **diversified** LP portfolios or desired entry to PE

### GP-Led

- Need attractive pricing
- Sourcing and entry timing
- **Concentration risk** if single assets without syndication
- Need **trust in GP** value creation

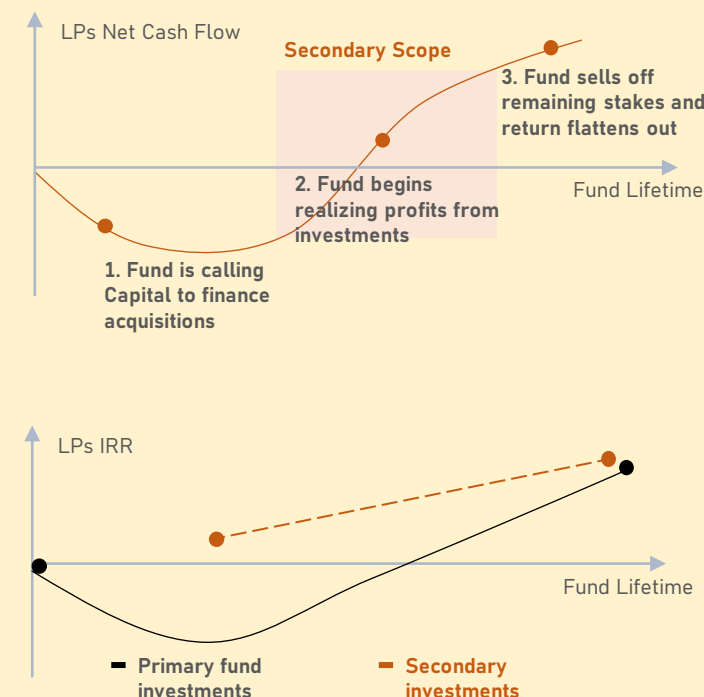
### LP-Led

- Need **GP agreement** and pricing consent
- May have **pooled assets with undesired single positions**

Sell-Side

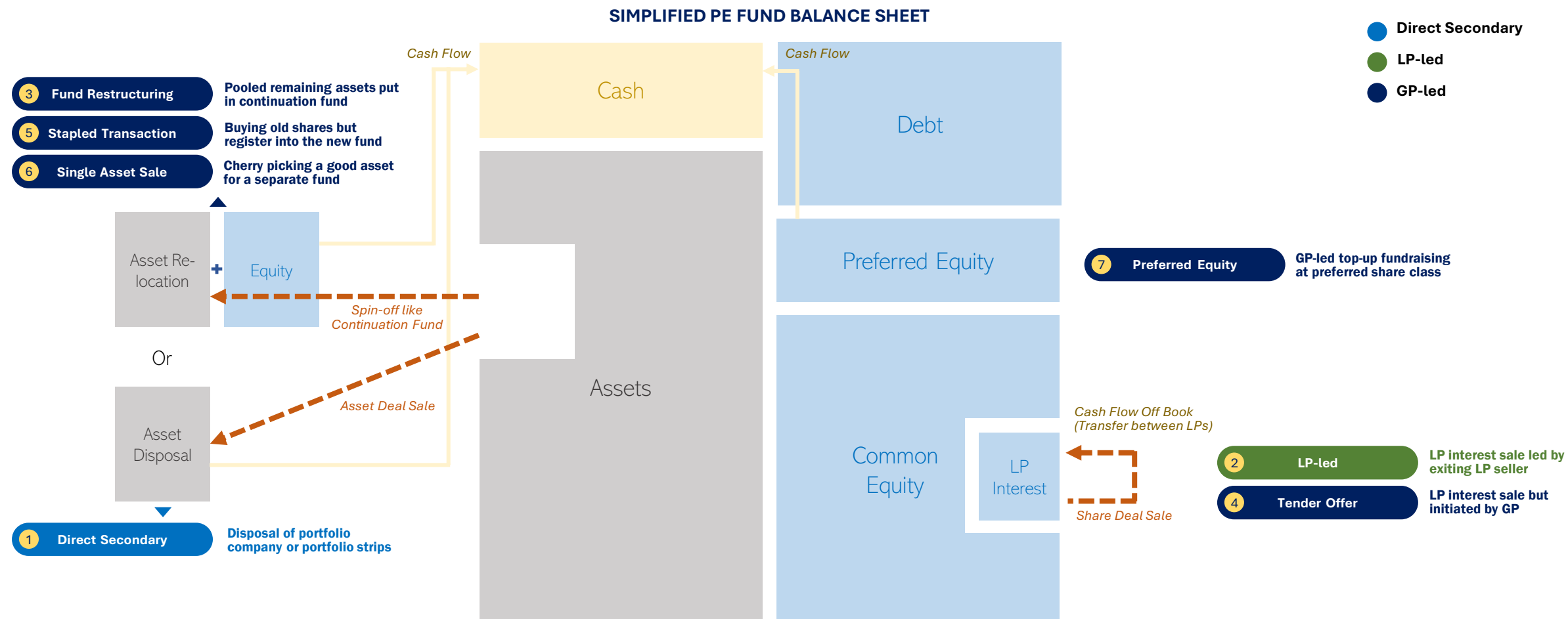
Buy-Side

## Zoom on Buy-Side benefits



# Secondaries Mapping

All transaction types can be found on either one side of the fund balance sheet



## Disclaimer

This Investment Review ("**Presentation**") has been prepared by Calista Direct Investors S.A., a Luxembourg law governed public limited liability company, having its registered office at 1 Place d'Armes, L-1136 Luxembourg, Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Companies' Register under number B251158 ("**Calista**"). This Presentation is strictly confidential and is being supplied to you solely for your information and should not be reproduced in any form, redistributed or passed on, directly or indirectly, to any other person or published, in whole or part, by any medium or for any purpose without the prior written approval of Calista.

It is not intended to be read as a stand-alone document but is to be read in conjunction with the verbal presentation delivered by a representative of Calista. The information included in the Presentation is subject to updating, completion, revision and amendment, and such information may change materially. None of Calista or its directors, officers or employees is under any obligation to update or keep current the information contained in the Presentation, and any opinions expressed in relation thereto are subject to change without notice. None of Calista or its directors, officers or employees make any representations (express or implied) as to the accuracy or otherwise of any information or opinions in the Presentation and (to the maximum extent permitted by law) no liability or responsibility is accepted by such persons.

This Presentation may contain forward looking statements. Forward looking words such as, "expect", "should", "could", "may", "plan", "will", "forecast", "estimate", "target" and other similar expressions are intended to identify forward-looking statements. Forward-looking statements provided in this Presentation are based on assumptions and contingencies which are subject to change without notice, as are statements about company, market and industry trends, which are based on interpretations of current market conditions. Such forward-looking statements, opinions and estimates are not guarantees of future performance and may involve unknown risks and uncertainties and other factors, many of which are beyond Calista's control, and may involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a range of variables which could cause actual results or trends to differ materially.

The information contained in this Presentation does not constitute an offer, invitation or recommendation to subscribe for or purchase any security and nothing contained in this Presentation forms the basis of any contract or commitment. This Presentation does not take into account your individual investment objective, financial situation or particular needs. You must not act on the basis of any matter contained in this Presentation. Calista is not authorized nor licensed to provide investment advice and the information and analysis herein do not constitute advice of any kind (and should not be construed as such), are not intended to be used for investment purposes (and should not be construed as such), and neither Calista Direct Investors S.A. nor any of its respective officers, directors, shareholders, employees or agents accept any responsibility or liability with respect to the use of or reliance on any information and/or analysis contained in this Presentation.

By accepting a copy of this Presentation, you agree to be bound by the foregoing limitations.



For further information about this study, please contact:



**Hung-Ying Chen**  
Private Equity Principal  
[hyc@calista-directinvestors.eu](mailto:hyc@calista-directinvestors.eu)



**Rupert Arnold**  
Private Equity Analyst  
[ra@calista-directinvestors.eu](mailto:ra@calista-directinvestors.eu)

---

**1 Place d'Armes, L-1136 Luxembourg**

[www.calista-directinvestors.eu](http://www.calista-directinvestors.eu)