



The GP-Led Secondaries Market: Growth and Opportunity

July 29, 2020

Featured speakers

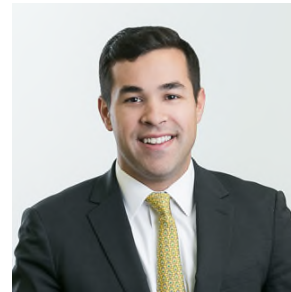


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Agenda



- Eaton Partners and market overview
- Drivers of the GP-Led market
- Preferred equity and continuation vehicles
- Key considerations
- Q&A

INTRODUCTION TO EATON PARTNERS

INDUSTRY LEADING ADVISORY AND FUND PLACEMENT FIRM FOR ALTERNATIVE INVESTMENTS WITH UNPARALLELED EXPERIENCE RAISING CAPITAL ACROSS VARIOUS STRATEGIES AND MULTIPLE GEOGRAPHIES

- Over **\$100 billion** raised for **140+** highly differentiated funds
- **\$27+ billion** placed in the last three years
- **37 first-time** funds raised (more than any of our peers)
- **32 oversubscribed** funds in the **last three years**

Proven Track Record

EATON
PARTNERS
A Stifel Company

Full Service Platform

- **Primary Fundraising & Advisory:** full process management and global LP targeting, new product development, positioning and market advice
- **Secondary:** liquidity solutions spanning diverse transaction structures to meet GP & LP goals
- **Co-invest & directs:** assist GPs in raising capital from attractive investor base for new investments and/or minority sales

- **25-person** Distribution Team with **14** Marketing Associates for support
- **26-person** Execution Team
- **Nine offices** across three continents
- Select JV partnerships in additional key geographies

Global Resources

Affiliated with Stifel

- **Industry leading** middle market focused investment bank
- HNW/Private banking relationships commit **>\$1B/year** to alternatives
- Growth equity provided to increase resources across the Eaton platform
- Strong technical and valuation expertise

FIRM ACHIEVEMENTS PAST THREE YEARS

\$27+ billion

total capital placed for private funds

40

funds closed

32/40

funds exceeded the target amount or hit hard cap

\$2.5+ billion

closed for secondaries and directs

700+

commitments closed

2017 awards

Placement Agent of the Year in North America and Asia

2018 awards

Placement Agent of the Year in Asia and Secondaries
Advisor of the Year in Asia

Select Mandates

PORTFOLIO SOLUTION TRANSACTIONS

Project Lyric

Recapitalization of a Music Royalty Company with Additional Primary Commitments

\$350M

Project Sauce

Formation Of A Fund IV In Conjunction With The Sale And Recapitalization Of Fund III

\$125M

Project Alpha

Formation of a Fund IV in Conjunction with the Sale & Recapitalization of Fund III

\$243M

Project Burrito

Follow-on Capital Raise for Existing Portfolio Company to Complete Merger

\$180M

PRIVATE EQUITY

Oak Hill Capital Partners IV

Consumer Services & Industrial Buyout



\$2.65B

Brightstar Capital Partners Fund I

Business & Industrial Services



\$710M

PRIVATE CREDIT

GLS Capital Partners Fund I

Litigation Finance



\$347M

Fundamental Partners III

Municipal Special Situations, Asset-Backed Credit



\$993M

REAL ASSETS

First Infrastructure Capital

Direct Energy Infrastructure Investments



\$1.0B

Five Point Midstream Fund III

Midstream Energy & Water



\$750M

REAL ESTATE

SDC Digital Infrastructure Opportunity Fund II

Digital Infrastructure



\$750M

Moorfield Real Estate Fund IV

UK Value-Add Real Estate



€220M

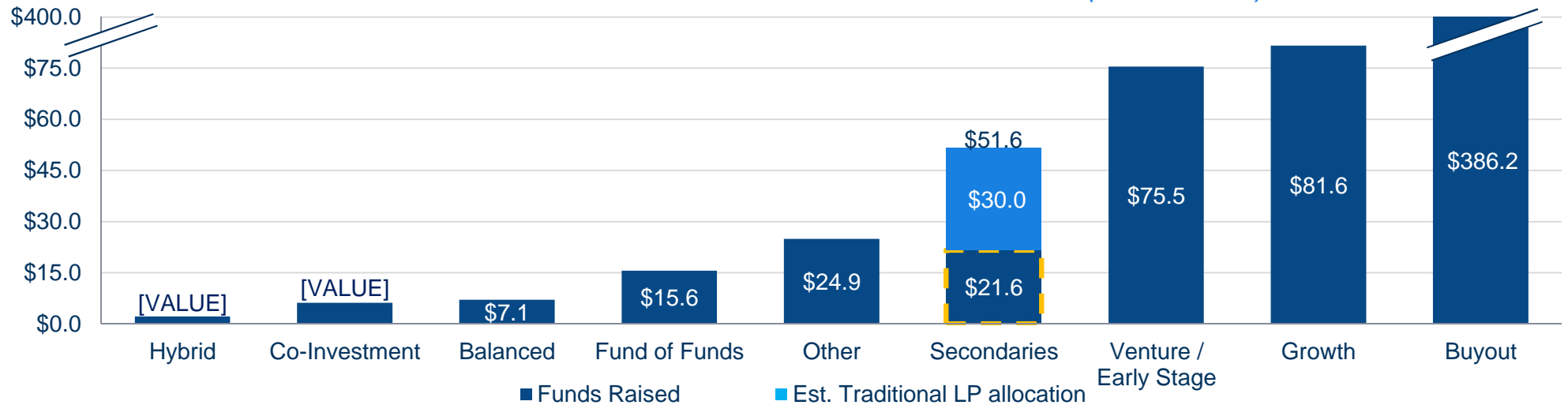


Market overview

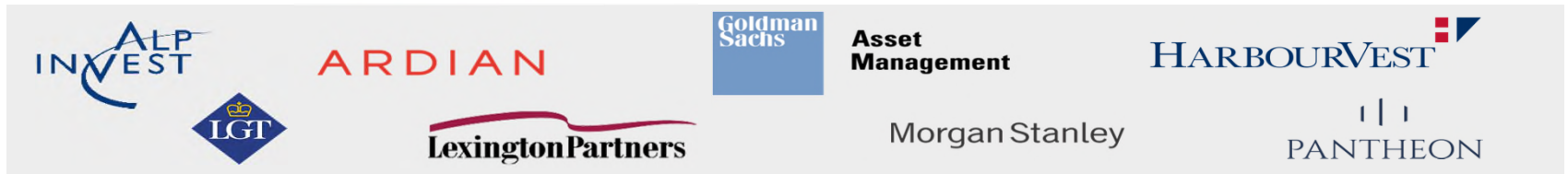
FUNDRAISING ACROSS PRIVATE EQUITY STRATEGIES

In 2019, secondary funds raised more than \$50bn, while the five largest open secondaries funds are seeking to raise a combined \$53bn in 2020

2019 PRIVATE EQUITY FUNDRAISING SUMMARY (\$ in billions)



SELECT
REPRESENTATIVE
SECONDARY
FUNDS



Note: Data as of March 2020.

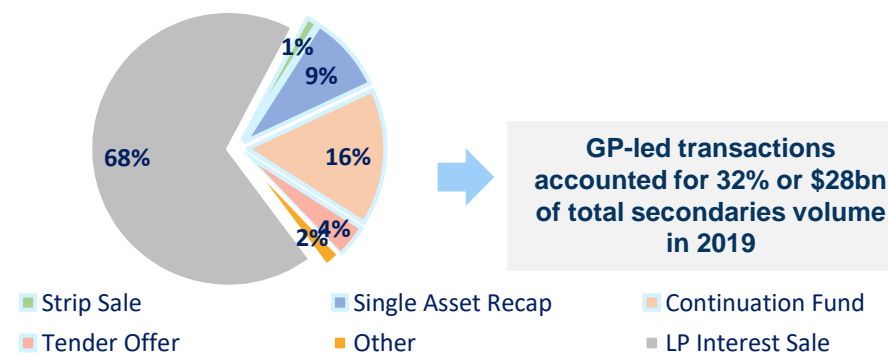
Source: Preqin, Pitchbook

SECONDARIES MARKET UPDATE: MAY 2020 – JULY 2020


SECONDARY FIRMS FUNDRAISING NEWS

- **July 2020 – ODDO raised** €358M for ODDO BHF Secondaries Fund, its debut secondaries fund, surpassing its original €300M target
- **June 2020 – eQ held final close** on eQ PE SF III, their third dedicated secondaries fund, with €155M, surpassing its original €150M target
- **June 2020 – Intermediate Capital Group** will launch ICG LP Secondaries Fund I, an LP stakes fund, with an unknown target and launch date
- **June 2020 – Ardian** closed its \$19B Secondary Fund VIII, making it the world's largest secondaries fund
- **May 2020 – Goldman Sachs** raised \$2.75B for its Vintage Real Estate Partners II Fund, surpassing its original \$1.25B target
- **May 2020 – Commonfund Capital** returned to market with its third dedicated secondaries fund, seeking \$550M in capital

2019 SECONDARIES VOLUME BREAKDOWN



RECENT TRANSACTIONS

Fund / Headquarters	Transaction Type	Transaction Size	Date	Description
 Grand Rapids, MI	Limited Partner Interests Sale	\$1.5B	Ongoing	<ul style="list-style-type: none"> • Ottawa Avenue Private Capital, the investment unit associated with the DeVos family office, is selling up to \$2B of its private equity stakes • HarbourVest Partners is the lead investor, and they will invest \$1.5B, with \$1B of that on a preferred equity basis, into the secondaries process • The deal is one of the largest on the market in the pandemic downturn, which has stopped most secondaries deal activity due to uncertain private equity valuations • The Ottawa Avenue portfolio is fairly concentrated, investing into a few fund managers including Vista Equity and AEA Investors

Note: Data as of July 2020. Source: Preqin, Company Websites, Secondaries Investor, Wall Street Journal

SECONDARIES MARKET UPDATE: MAY 2020 – JULY 2020

RECENT TRANSACTIONS *(continued)*

Fund / Headquarters	Transaction Type	Transaction Size	Date	Description
Exponent <i>London, UK</i>	Preferred Equity	\$156M	July 2020	<ul style="list-style-type: none"> Exponent Private Equity closed a preferred equity deal that will allow it to fund add-on acquisitions for its Exponent Private Equity Partners III, a 2015-vintage fund that closed on \$1.25B Exponent secured preferred equity from 17Capital for up to \$156M The preferred equity transaction comes 18 months after Exponent suspended plans to run a tender offer process on Fund III, a result of market volatility caused by the UK's uncertain future relationship with the EU
DYAL CAPITAL PARTNERS <i>New York, NY</i>	Securitization	\$1B	June 2020	<ul style="list-style-type: none"> Dyal Capital Partners suspended its plans to run a GP-led secondaries process and, instead, closed a \$1B securitization The securitization will offer liquidity to LPs by returning distributions in its 2015-vintage Dyal Capital III fund, which has 20 investors The securitization bundles future cash flows from the management fees of the fund's underlying 10 GPs Dyal Capital III fund holds minority stakes in firms including Vista Equity Partners, Silver Lake, and HIG Capital
PROVIDENCE EQUITY <i>Providence, RI</i>	Single-Asset Recap	\$600M	Ongoing	<ul style="list-style-type: none"> Intermediate Capital Group is backing a \$600M NAV single-asset recap of Providence Equity Partners VI, a 2007-vintage fund Providence is moving HSE24 Multichannel GmbH, a home shopping TV network, into a continuation vehicle to offer liquidity to limited partners and provide the GP more time to manage the company Providence is preparing HSE24 for an IPO
idinvest PARTNERS <i>Paris, France</i>	Continuation Fund	Not Reported	June 2020	<ul style="list-style-type: none"> Idinvest Partners closed a GP-led process, transferring 12 assets from several growth and venture capital vehicles into a five-year continuation fund in a deal led by Pantheon Ventures The transaction offered liquidity to existing investors and provided the GP more time to support the portfolio companies in the continuation fund The assets were lifted out of French investment vehicles for retail investors; retail investors averaged a 3.0x gross MOIC return

Note: Data as of July 2020. Source: Preqin, Company Websites, Secondaries Investor, Wall Street Journal, Buyoutinsider.com

Drivers of the GP-led market

- Liquidity demands from limited partners
- Additional capital needs for existing portfolio companies (defensive and offensive purposes)
- Timing mismatch between fund life and asset/portfolio maturation
- Global pandemic has magnified each of these
 - IPO and M&A markets have stalled
 - Traditional secondaries market has “shut” pending return in NAV-based pricing confidence, creating need for alternative capital deployment strategies
 - Traditional short-term solutions (such as term extension) may not address needs in light of market uncertainty

GP-led
transaction
types

SELECT TRANSACTION TYPES

SINGLE-ASSET RECAP (CONTINUATION VEHICLE)

Scenarios & Rationales:

- Duration mismatch between asset harvest period and fund life
- Asset requires more capital or time to meet expectations
- Asset has significant upside remaining

Structure:

- New vehicle established to acquire the asset with potential for follow-on capital. Existing LPs will be given roll or sell options

CONTINUATION FUND

Scenarios & Rationales:

- Duration mismatch between a portfolio of assets and the fund life
- Portfolio requires more capital or time to meet expectations
- Assets have significant upside remaining

Structure:

- New vehicle is established to acquire the assets, with potential for follow-on capital. Existing LPs will be given roll/sell option

PREFERRED EQUITY

Scenarios & Rationales:

- Portfolio requires follow-on capital or equity cure
- Distribution to LPs to satisfy liquidity demands
- Asset has significant upside remaining

Structure:

- New vehicle is established to provide preferred equity financing in exchange for priority right to distributions from the Fund's portfolio companies
- Alternatively, preferred investor can be admitted to the Fund (more complicated)

PORTFOLIO STRIP SALE

Scenarios & Rationales:

- Strong unrealized returns in a mature fund with limited liquidity
- Investors require liquidity in an older fund before committing to the newest fund
- Outsized exposure to a particular segment

Structure:

- New vehicle is established to purchase a portion of each asset and will be liable for future calls on a pro-rata basis with the main fund

MINORITY SALE

Scenarios & Rationales:

- Sponsor looking to generate liquidity without raising additional debt or exiting the investment
- Opportunity to obtain institutional investors to act as passive equity alongside sponsor

Structure:

- The institutional investor purchases an equity stake from the selling sponsor

SPIN-OUT

Scenarios & Rationales:

- Wind down of a corporate investment program through the buyout of assets and team
- Investment manager looking to sell group of assets to existing members of the firm

Structure:

- New management company and vehicle are established to purchase and manage assets

SELECT TRANSACTION TYPES (CONT'D)

TENDER OFFER

Scenarios & Rationales:

- Group of LPs indicated their interest in liquidity
- LP(s) has not committed to the latest fund

Structure:

- Facilitate competitive process where a group of buyers bid on purchasing a maximum amount of LP interests
- The process is often accompanied by a staple to the latest fund

LIMITED PARTNER INTEREST(S) TRADE

Scenarios & Rationales:

- LP looking to divest of non-core relationships
- LP looking to reduce private equity exposure

Structure:

- Purchase of LP Interest(s)
- In sponsor-led processes, the outreach to investors is often based on strength of primary program

SEEDED FUND / LATE PRIMARY

Scenarios & Rationales:

- Fund has made a number of investments that have performed well
- Opportunity to bring in new long-term relationships through secondary angle

Structure:

- New investor would make a primary commitment to the fund

SECURITIZATION

Scenarios & Rationales:


- LPs indicated their interest in a near term liquidity option
- Fund investments have predictable future cash flows

Structure:

- GP obtains loan from an alternative investment manager secured against future cash flows
- GP distributes up front cash sum to LPs

OTHER CONSIDERATIONS

- Many of the transaction types listed often include a primary commitment, also known as a staple
- Transaction types and structures are not confined to what is included in this presentation
- Structures are not mutually exclusive in all cases – may be prudent to deploy multiple strategies to achieve objective

An aerial photograph of a crowded beach. The top of the image shows the ocean with gentle waves washing onto the shore. Several people are visible near the water's edge. The majority of the beach is covered with numerous colorful beach umbrellas in shades of green, yellow, red, blue, and orange. Some umbrellas have geometric patterns. Between the umbrellas, there are many lounge chairs and some beach toys. A green rectangular box with white text is overlaid on the right side of the image.

Preferred equity and continuation vehicles

PREFERRED EQUITY

OVERVIEW

Introduction

- Preferred equity is a NAV-based financing solution that is a non-dilutive source of capital
- It is also a flexible use of capital for the following purposes:
 - Follow-on for portfolio companies and M&A activities
 - Distribution to LPs
 - Reduce leverage of portfolio companies (i.e. equity cure for a pending covenant breach or the repurchase of debt obligations)

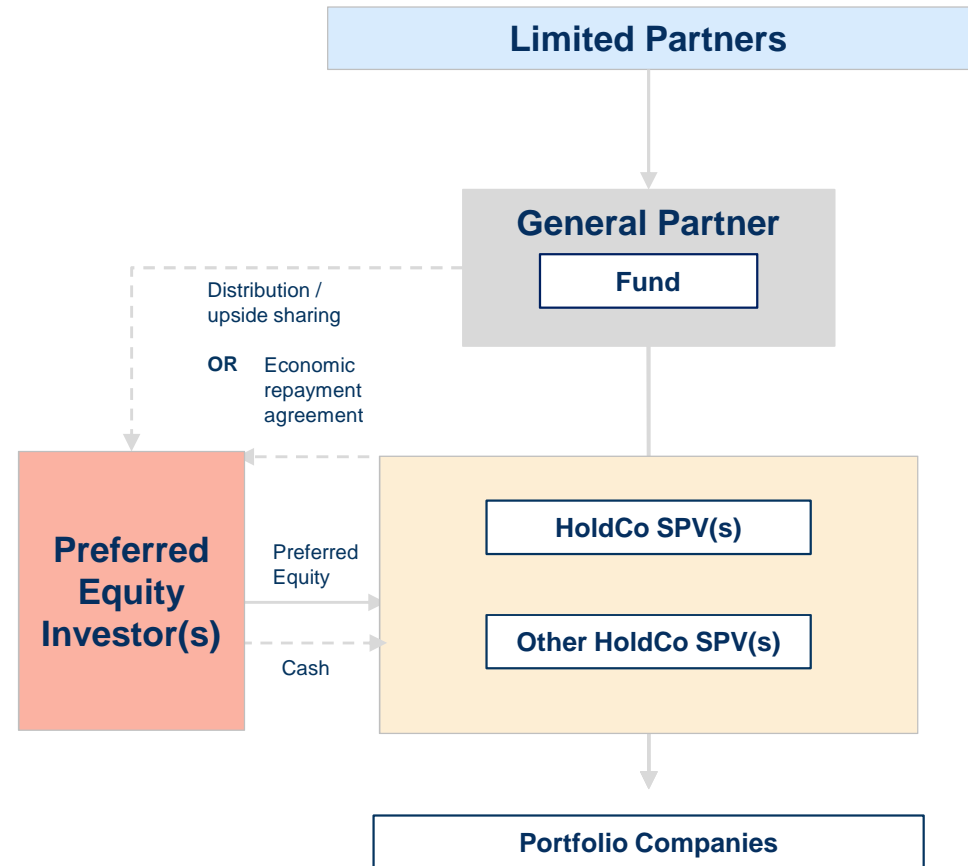
Process Summary

- The GP issues a newly created preferred equity security to a new SPV financed by a preferred equity investor
- The Fund issues a security to new Investors with a priority right to distributions from the Fund's portfolio companies until the Investor has received a certain return, represented either as target multiple and/or a minimum hurdle
- All assets remain in the Fund, but financing provider receives a priority claim on future distributions. The proceeds may be used for multiple purposes

Benefits

- No fixed maturity
- No financial covenants or asset-level security
- Typically higher LTV than versus other NAV-based options
- LPAC approval usually is not needed, which streamlines the funding process

ILLUSTRATIVE STRUCTURE

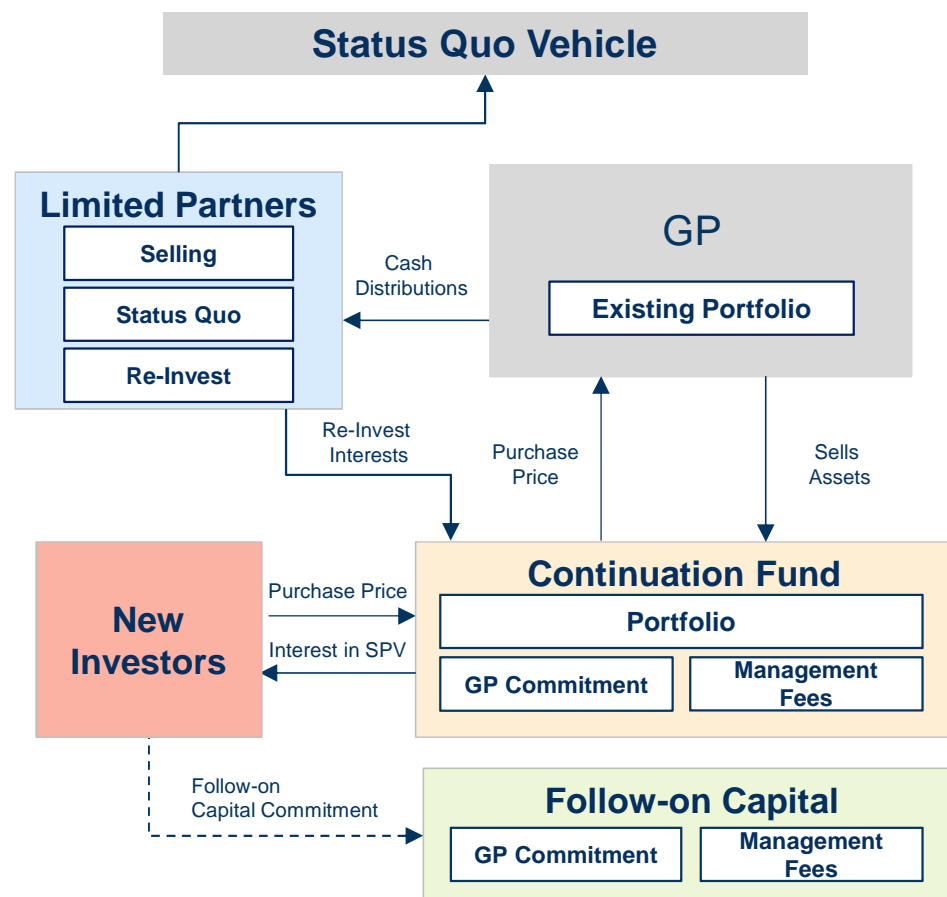


CONTINUATION VEHICLES

PROCESS OVERVIEW

- In this process, the GP will sell its existing portfolio from its existing vehicle to a newly established special purpose vehicle, the Continuation Fund
- Once the Lead Investor is identified, the GP will offer its existing LPs with the following options:
 - **Liquidity:** Sell interests and be entitled to receive proceeds equal to the net purchase price
 - **Maintain:** Roll-over current investment and maintain status quo under existing terms
 - **Additional Investment:** Invest additional capital net, pro-rata alongside the new investors in the Continuation Fund on the same price and terms
- Prospective investor(s) will commit capital to the Continuation Fund to fund the liquidity option, receiving limited partner interests in the Continuation Fund with mutually agreed upon new terms and conditions
- Additionally, investors will be expected to commit additional capital to fund potential follow-on investments

ILLUSTRATIVE TRANSACTION STRUCTURE



Preferred equity

- Valuation: favorable LTV and therefore no need to exactly price the equity of the portfolio companies
- Speed of execution/approval process: may not need LPAC approval as no conflict of interest; may not count as leverage under the fund documents; no amendments needed to LPA.
 - Exception if preferred equity goes through fund (and therefore waterfall needs to be amended)
- Flexible use of capital
- Complete fix?



Continuation vehicles

- Liquidity for LPs
- Valuation
 - Problematic during the early stages of the pandemic, particularly for single assets
 - With lower NAV valuations, the GP has the opportunity to use these to reset carry
- Approval process, both fund and portfolio company level
- Opportunity to fix more issues
- Longer process due to complexities
 - Conflicts
 - Disclosure
 - Rollover/reinvestment
 - New capital
 - Status quo



Key considerations

- Preparation! What is the rationale for the transaction?
 - GP and underlying management team see growth opportunities beyond fund life
 - Bolt-on opportunities that need additional capital
 - Exit strategy (perhaps linked to sector and/or market conditions) require longer hold period
- Know your LPs. Involve your LPs and/or the LPAC.
 - Communication is critical
 - Valuation – how determined?
 - Conflicts of interest
 - GP Alignment (e.g., management fee, carried interest, GP commitment, etc.)
 - Anticipate issues – tax consequences, indemnification obligations, etc.



Q&A

SBIA's Fall webinars | Save the date

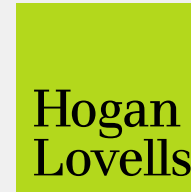
PPP Part 2 – Legal Issues Regarding Compliance to the Act
Wednesday, September 2 | 12:00 – 1:00 pm ET

Managing Credit in a Downturn
Tuesday, September 15 | 12:00 – 1:00 pm ET

A Lookback on Valuations: What Did GPs Do?
Tuesday, September 22 | 12:00 – 1:00 pm ET

Financial Performance Insights for Portfolio Companies: Reporting & Analytics
Tuesday, September 29 | 12:00 – 1:00 pm ET

Evolving Debt Financing Terms
Tuesday, October 6 | 12:00 – 1:00 pm ET





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