Pomona Capital

The Potential Benefits of Private Equity Secondaries

Executive Summary

- Many investors may be seeking strategies that can insulate their broader portfolio from downside volatility without completely sacrificing the upside potential of public equities
- Secondaries Private Equity strategies have a track record of outperformance* versus public equities and have delivered downside protection during the most significant public equity drawdowns of the last 25 years
- Going forward, we believe the secondaries private equity market is well positioned to provide diversification benefits, attractive risk-adjusted returns and potential for accelerated liquidity

*See below graphs for more information.

Will the Next Ten Years Look Like the Last Ten Years?

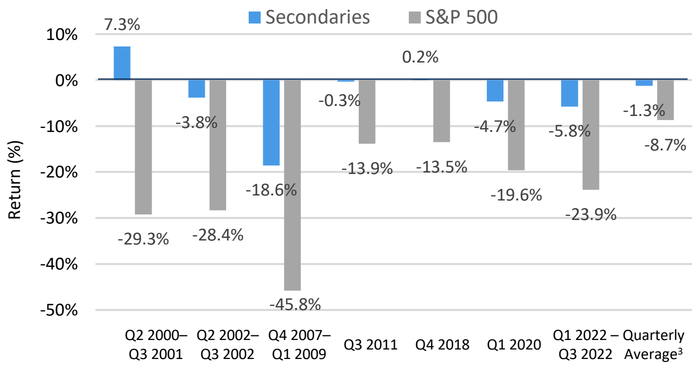
Many investors agree that the next ten years will look materially different than the last ten. In recent years including the COVID pandemic and a market marked by uncertainty and volatility, public equities have faced significant swings in both directions.

Against this backdrop, many investors may seek alternative investments that have historically offered downside protection and low correlation to traditional public equity allocations. Private equity (PE) secondaries may be able to help investors achieve risk adjusted returns and diversification goals while also maintaining the potential for upside participation.

Scorecard: Secondaries Private Equity versus Public Equity

Secondaries Private Equity has delivered downside protection…

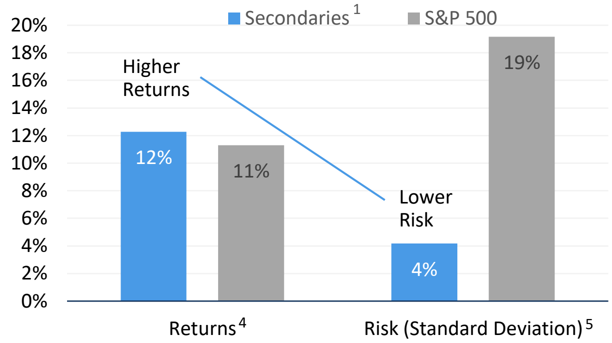
Secondaries PE [1] vs. S&P 500 [2]
7 Worst S&P Drawdowns[3] since 1999



As of September 30, 2024.

...without sacrificing upside returns and mitigating risk

20 years ending 09/30/24



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Characteristics Well Positioned for Today's Market: Overview of Secondaries Private Equity

As demonstrated, secondaries private equity has a track record of delivering downside protection without sacrificing upside potential; this dynamic is beneficial for investors who seek to use alternatives to bolster the risk profile of their broader portfolio. While various alternative strategies may have similar track records, we believe PE strategies focused on opportunities in the secondaries market are particularly well positioned for the challenges of today, especially for investors seeking to add an element of downside protection to their portfolios.

High Barriers to Entry: Do Not Foray into Secondaries Alone

A secondaries PE portfolio is typically constructed by buying existing limited partner interests in a variety of PE funds, which tend to have long lock-up periods. When primary investors in PE funds decide they want to exit their PE investment early, they tap the secondaries market to find a suitable buyer. Shares of public equities trade hands on massive, highly liquid exchanges that quickly connect sellers with buyers. However, given the complexity of the PE market, private equity interests typically trade hands more slowly through a closed network of sophisticated buyers and sellers. Effectively accessing the secondaries market as a buyer requires extensive industry relationships and specialized expertise. Among other things, a buyer must have the requisite relationships to source quality opportunities, have sufficient information about the current performance and future prospects of a PE fund to adequately price the investment, and be an acceptable buyer of that PE fund such that its general partner will consent to the transfer of the selling limited partner's interest. In addition, managers of secondaries PE strategies with the appropriate industry relationships can often gain access to funds managed by high-quality private funds that are closed to new investors.

Secondaries Private Equity vs Primary Private Equity*

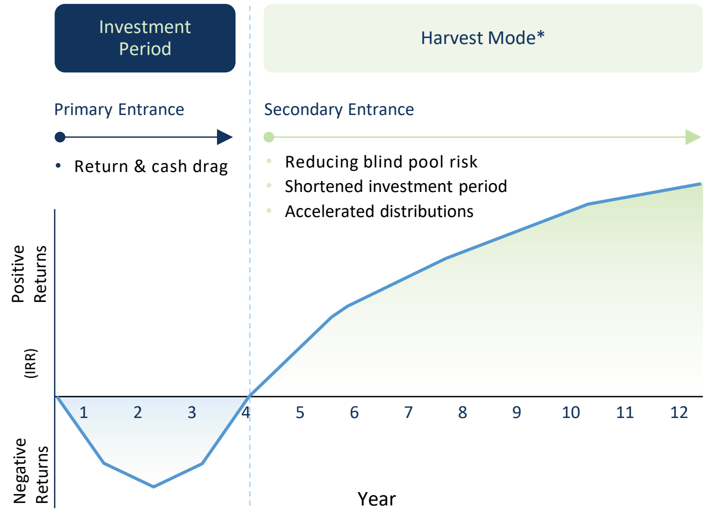
Investment Characteristics	Secondary Strategy	Primary Strategy
Definition	A Limited Partner interest is sold to another investor, considered to be the "second" purchaser of the LP interest	Direct investment in blind pool limited partnership
Assets Acquired	Funded, mature underlying portfolio companies with transparency into performance	Blind pool
Age of Assets	Average 3–7 years	N/A
Cost of Investment	Potential discount to Net Asset Value (NAV)	Cost
Return of Capital	Typically 1–7 years	Typically 5-10
Diversification	By vintage year, type, size, and geography	More limited

Enhanced Portfolio Visibility

One of the key differences between primary and secondary investors is the level of insight into the underlying assets. Primary investors often base their expectations for each underlying company's future performance on a private equity manager's previous success. For example, if a private equity manager has a track record of successful healthcare acquisitions, the logic is that this expertise will translate into future success with subsequent acquisitions of healthcare companies. Alternatively, managers of secondaries PE strategies are often able to analyze and underwrite the underlying assets of each PE fund that is acquired, which may provide enhanced visibility into growth, exit expectations, and potential near-term liquidity events.

J-Curve Mitigation, Accelerating Liquidity

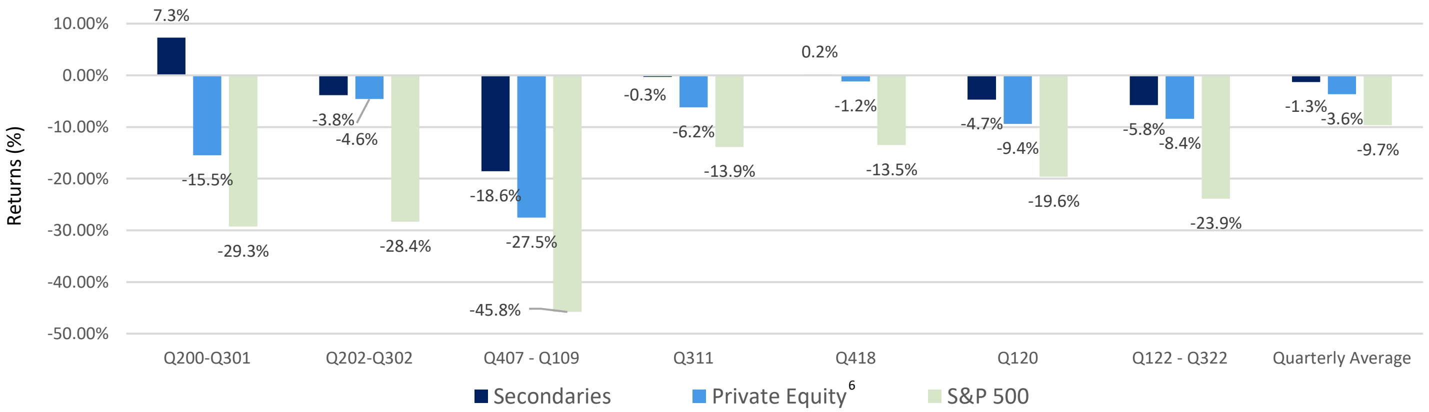
A primary investment in a PE fund begins with a commitment of capital to a limited partnership, with minimal visibility into underlying investments. Over time, that capital is drawn down and used to fund investments in new portfolio companies that fit within the investment thesis of that private equity firm. Given that the entry point of a secondaries investor is often subsequent to the completion of the investment period, the capital is already invested and the portfolio is now closer to a point of realization. This typically allows investors to mitigate the "J-Curve" effect of negative early returns and receive capital back faster after an investment.



*The above is being provided for illustrative purposes only to show potential J-curve mitigation for secondary investors. The above is being provided for informational purposes only and reflects the views and opinions of Pomona, which are subject to change. Prospective investors should consult their financial, tax and legal advisors prior to making a commitment to private equity or any Pomona-sponsored fund. Investing in private equity is a risk and an investor may lose all or some of its commitment. Past performance is not an indication of future results. See important disclaimers and footnotes on page 4.

Putting it all Together: Secondaries have Delivered More Historical Downside Protection than Primary PE Strategies and Public Markets

Secondaries PE[1] vs. Primary PE[6] vs. S&P 500[2]
7 Worst S&P Drawdowns since 1999



Twenty-five years ending September 30, 2024.The equity drawdown periods identified in the chart above span a consecutive 25 year period different monthly periods. The Quarterly Average is provided for the quarters shown above. Past performance is no guarantee of future results. Indices are unmanaged and not available for direct investment.

Today's Capital Raised is Tomorrow's Secondary Opportunity

The market opportunity for secondary interests in private equity funds is a function of two main variables: (i) the volume of capital invested in private equity partnerships over time and (ii) the rate of turnover of those interests.

Secondaries represent one of the fastest growing segments of the private equity asset class over the last ten years[A], and Pomona believes that the secondary market opportunities are likely to continue to increase. Secondaries volume has exceeded over $100 billion for the past four consecutive years[B]. Private markets continue to grow significantly and are projected to reach more than $15 trillion by 2025, and more than $18 trillion by 2027[D]. Against this back drop, annual secondary volume could reach $300 billion[C] by 2030. As the PE market grows, so does the opportunity set for private equity managers employing a secondaries strategy. Secondaries investors who remain nimble, risk conscious and target near-term liquidity should continue to have sufficient opportunities to deploy capital in the years ahead.

Conclusion: Manager Selection is More Important Than Ever

For investors drawn to the historical downside protection of private equity, we believe that secondaries are especially well positioned to navigate the latter part of the current economic cycle and into the next one. Given uncertain market dynamics, we believe opportunities to purchase quality limited partner assets at significant discounts exist for secondary investors that demonstrate an ability to (i) remain disciplined in its investment thesis, (ii) access high-quality private equity fund managers for transfer consent, (iii) gain enhanced insight into underlying portfolio dynamics and (iv) cautiously navigate market volatility while proactively seeking opportunities to construct a portfolio of choice.

A) Source: Private Equity International (link). (B) Jefferies Global Secondary Market Review (Jan 2025) (www.jefferies.com). C) William Blair 2025 Secondary Market Report (Link). D) S&P Global Private Markets – A Growing, Alternative Asset Class (Link). The above is being provided for informational purposes only and reflects the views and opinions of Pomona. Prospective investors should consult their financial, tax and legal advisors prior to making a commitment to any private equity or Pomona-sponsored fund. Investing in private equity is a risk and an investor may lose all or some of its commitment. Past performance is not an indication of future results. See important disclaimers and footnotes on page 4.

Footnotes & Disclaimers

(1) Source: Cambridge Associates. The Secondaries PE index represents a horizon calculation based on data compiled from 339 secondary funds, including fully liquidated partnerships, formed between 1991 and 2023. Investors cannot invest directly in an index. The investments within a private equity fund and the corresponding performance volatility thereof may differ significantly from the securities that comprise the index, which may contain strategies and asset types a private equity fund does not utilize. The index is calculated on an annualized total return basis with dividends reinvested. The index has not been selected to represent an appropriate benchmark to compare an investor's performance, but rather is shown as a comparison to that of a well-known and widely recognized index. The index is not subject to any of the fees and expenses to which any private equity fund would be subject and no private equity fund will attempt to replicate the performance of the index.

(2) S&P 500 Index: The S&P 500 Index is a market-capitalization weighted index containing the 500 most widely held publicly-traded companies (400 industrial, 20 transportation, 40 utility and 40 financial companies) chosen with respect to market size, liquidity, and industry. The index is calculated on an annualized total return basis with dividends reinvested. The investments within a private equity fund and the corresponding performance volatility thereof may differ significantly from the securities that comprise the index, which may contain strategies and asset types a private equity fund does not utilize. The index is calculated on an annualized total return basis with dividends reinvested. The index has not been selected to represent an appropriate benchmark to compare an investor's performance, but rather is shown as a comparison to that of a well-known and widely recognized index. The index is not subject to any of the fees and expenses to which any private equity fund would be subject and no private equity fund will attempt to replicate the performance of the index.

(3) The equity drawdown periods identified in the chart above span 20 different quarterly periods. The Quarterly Average is calculated by taking the sum of returns in each of the 20 quarters and dividing the sum by 20 to reflect the number of quarters observed.

(4) 20-Years-to-Date Total Net Return Annualized = {[1 + Inception-to-Date Total Net Return]^[1/(number of days between September 30, 2004 and September 30, 2024/365)]} – 1

(5) Standard deviation is a statistical measure of volatility over time; a lower standard deviation indicates historically less volatility. Annualized standard deviation calculated using quarterly performance.

(6) Cambridge Associates LLC U.S. Private Equity: The index is a horizon calculation based on data compiled from 2,755 US private equity funds, including fully liquidated partnerships, formed between 1986 and 2023. The investments within a private equity fund and the corresponding performance volatility thereof may differ significantly from the securities that comprise the index, which may contain strategies and asset types a private equity fund does not utilize. The index is calculated on an annualized total return basis with dividends reinvested. The index has not been selected to represent an appropriate benchmark to compare an investor's performance, but rather is shown as a comparison to that of a well-known and widely recognized index. The index is not subject to any of the fees and expenses to which any private equity fund would be subject and no private equity fund will attempt to replicate the performance of the index.

Private equity investments are subject to various risks. These risks are generally related to: (i) the ability of the manager to select and manage successful investment opportunities; (ii) the quality of the management of each company in which a private equity fund invests; (iii) the ability of a private equity fund to liquidate its investments; and (iv) general economic conditions. Private equity funds that focus on buyouts have generally been dependent on the availability of debt or equity financing to fund the acquisitions of their investments. Depending on market conditions, however, the availability of such financing may be reduced dramatically, limiting the ability of such private equity funds to obtain the required financing or reducing their expected rate of return. Securities of private equity funds, as well as the portfolio companies these funds invest in, tend to be more illiquid, and highly speculative.

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All indices are unmanaged and an investor cannot invest directly in an index. Index returns do not include fees or expenses.

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