



What Is a Secondary?

A secondary private equity investment occurs when one investor buys an existing stake in a primary private equity fund from another investor. The buyer is known as the “second purchaser.” After the GP (manager) of the primary fund approves the transfer, the “second” LP (buyer) assumes all the rights and obligations of the original LP (seller).

How a secondaries transaction occurs



Secondaries are one of several ways to access private equity

TYPES OF PRIVATE EQUITY INVESTMENT STRUCTURES

INDIRECT ACCESS	TYPES OF PRIVATE EQUITY INVESTMENT STRUCTURES			DIRECT ACCESS
	Fund of Funds	Secondary Private Equity Fund	Primary Private Equity Fund	Co-Investments
	<ul style="list-style-type: none"> • Diversified portfolio of interests in primary private equity funds. • Broad exposure to a diverse portfolio of funds • Performance depends on the manager’s ability to successfully select and manage a portfolio of private equity funds 	<ul style="list-style-type: none"> • Purchase of secondary interests from LPs who hold investments in primary funds • Secondaries funds are broadly diversified and can often acquire assets at discounts • Positive cash flow usually starts earlier than in primary funds 	<ul style="list-style-type: none"> • Investment in a newly offered private equity fund (assets are not yet selected by the GP) • May be concentrated in the GP’s area of expertise—a particular region, sector or transaction type. • Less diversification than primary fund-of-funds 	<ul style="list-style-type: none"> • Opportunistically participate directly in private equity transactions alongside other partners • Typically, investments in single companies or assets; they are positions held outside of the GP sponsor’s main fund.

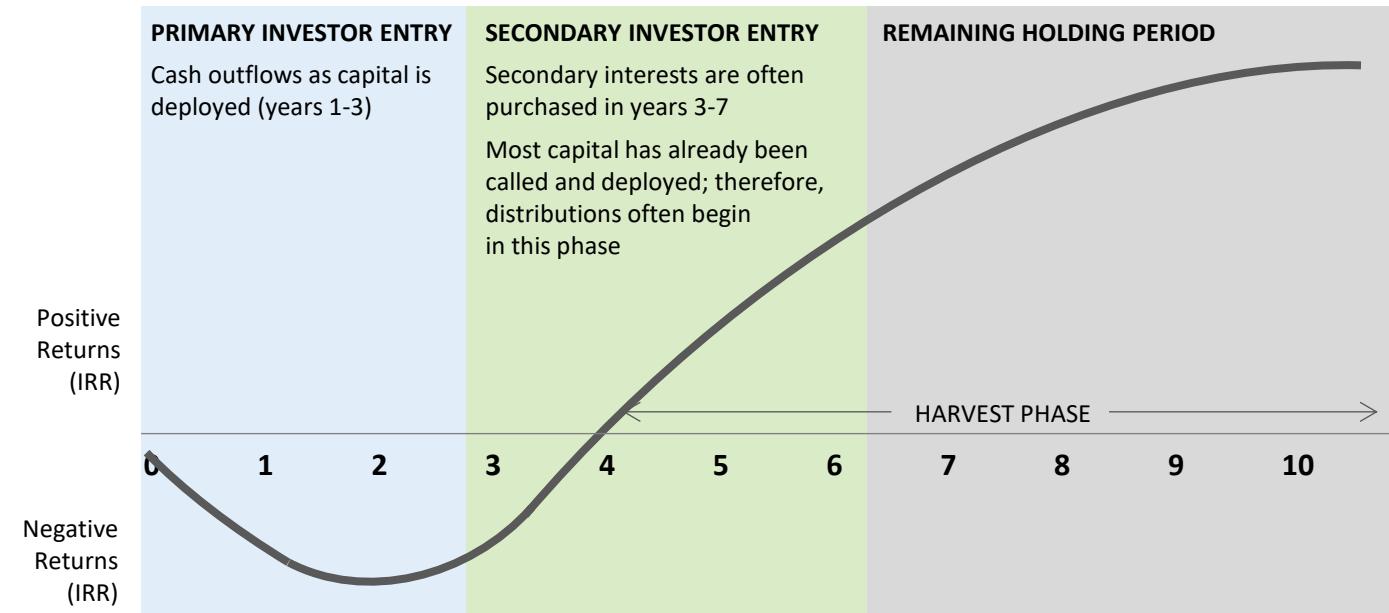
- Private equity strategies differ in their fundamental characteristics and can produce significantly different returns than traditional investments.
- Private equity funds can be dedicated solely to one strategy or can invest in a combination of strategies.
- Private equity funds have different risk profiles and liquidity restrictions than traditional asset classes.

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Primaries vs secondaries: It's all about timing

In the initial years of a primary equity investment, the fund manager (GP) deploys cash to make investments, which have not yet begun to make distributions. In this phase, it is normal for a fund to exhibit low or negative returns.

Generally, primary and secondary investors may both earn positive returns during their holding periods; however, entering a fund as a secondary investor (rather than a primary investor) allows the investor to buy into the fund at a later stage, often directly into its “harvest phase” which can provide early positive cash flow. The “J-curve” in the chart below shows the typical return path of a private equity fund over time.



Comparing features

Both primaries and secondaries provide access to private equity, but their different entry times gives them distinct attributes^A

	PRIMARY FUND	SECONDARY FUND
Definition	A limited partner (LP) invests in a newly offered private equity fund	An LP in a primary fund sells their interest to another investor, considered the “second” LP
Types	Leverage buyout, growth, venture, mezzanine, special situation and all other asset classes	Traditional secondaries, secondary direct, and secondary co-investments
Assets acquired	Unknown (“blind pool”); the LP commits capital before the GP (manager) has identified investments	Funded, mature portfolio companies with a track record of performance
Age of assets	Unknown	Average 3-7 years
Cost	Negotiated price presumed to be fair market value	Often acquired at a discount to net asset value (NAV) to compensate buyer for providing liquidity
Return of capital	Typically, 5-10 years after investment is made	Typically, 1-7+ years after investment is made
Diversification	Usually limited; often concentrated in a region or sector	Widely diversified by vintage year, type, sector, region
Performance	Higher return potential	Earlier distributions & cash flow

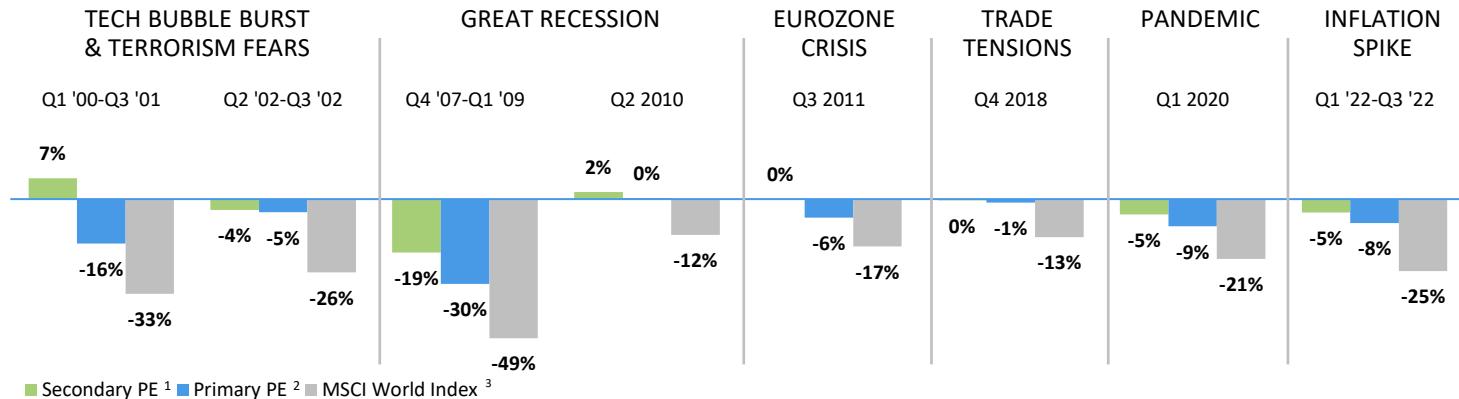
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A) The above represents common features of primary and secondary private equity funds; actual characteristics will vary and there is no guarantee that any investment in private equity will follow the above.

Secondaries demonstrate resilience in downturns

Private equity has historically exhibited better downside protection than traditional investments in periods of market distress. As shown here, private equity outperformed US public equities during even the most challenging global economic conditions.

Cumulative returns during equity drawdown periods



As of 12/31/24. Source: Pomona Capital, Capital IQ (S&P), Cambridge Associates (CA Index). Data show cumulative quarterly returns during drawdown periods from 1999 to 2024.

Recap: Features and potential benefits of investing in secondary private equity

1 Visibility into the fund's holdings

Secondaries funds decrease "blind pool" risk inherent in primary funds that require commitments before assets are identified

2 More established companies

Secondaries investors gain exposure to many companies that have grown beyond their high-risk early stage

3 Earlier cash flows

Primary funds often incur negative returns in early years; secondaries typically produce cash flow soon after purchase

4 Diversification

Secondaries funds are typically more highly diversified across sectors and regions than primary funds

5 Discounted prices

Secondaries funds may acquire interests at a discount to net asset value, producing an immediate gain

6 Access to top managers

Secondaries funds with strong GP relationships may be able to acquire interests in top-tier private equity funds

7 Performance

Relative to other asset classes, secondaries have historically outperformed, demonstrating greater resilience in downturns

About Pomona Capital

Founded in 1994, Pomona Capital is a global private equity firm that has \$20 billion⁴ in capital commitments across its sponsored funds and separate accounts.

Pomona manages a series of secondary and primary strategies for a global group of over 350 sophisticated investors. Pomona fields a team of experienced professionals with local networks, country expertise and GP relationships across both mature and developing markets. The team has an established record of originating, analyzing, negotiating and closing diverse transaction types.

Over our 30-year history, we have analyzed \$1T+ in secondary transactions and purchased ~750 funds, totaling investments in 10,000+ companies. Pomona has a demonstrated track record of strong returns and liquidity with a relatively low risk profile⁵ over multiple economic cycles.

Statements made above are Pomona Capital's views and opinions of the private equity secondary asset class and are subject to change. There is no guarantee that every secondary investment made will share some or all of the foregoing characteristics. Past performance is not an indication of future results. Investing in private equity involves risk and an investor may lose some or all of their investment. There is no guarantee that investments in private equity will be profitable.

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Footnotes & Disclaimers

Investment in private equity involves a substantial degree of risk and the appropriateness of private equity for any individual portfolio will vary. Index performance is not representative of the Fund's performance. There are significant differences between public and private equities, which include but are not limited to, the fact that public equities have a lower barrier to entry than private equities. There is also greater access to information about public companies. Investments in private equities typically have a longer time horizon than investments in public equities before profits, if any, are realized. Additionally, public equities typically provide greater liquidity than private equities, whereas private equities are considered highly illiquid. The date range is based on a common period of data availability. The referenced indices are shown for general market comparisons and are not meant to represent any particular investment. There are significant differences in the risks and potential for volatility of the Fund relative to an index. An investor cannot invest directly in an index. Moreover, indices do not reflect commissions or fees that may be charged to an investment product based on the index, which may materially affect the performance data presented. Past performance is no guarantee of future results.

- (1) The Cambridge Secondary Funds Index is based on unaudited quarterly performance data compiled from 369 secondary funds (excluding hard assets funds), including fully liquidated partnerships, formed between 1991 and 2024. The index has limitations (some of which are typical to other widely used indices) and cannot be used to predict performance of the Fund. These limitations include:
 - Survivorship bias (the returns of the index may not be representative of all secondary funds in the universe because of the tendency of lower performing funds to not report returns to the index);
 - Lack of transparency (the specific funds that are included in this index are not disclosed by Cambridge Associates, and therefore cannot be independently verified);
 - Heterogeneity (not all secondary funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and
 - Limited data (many funds do not report to indices, and the index may omit funds, the inclusion of which might significantly affect the performance shown).
- (2) Cambridge Associates U.S. Private Equity Index: The Cambridge Associates U.S. Private Equity Index represents the horizon calculation based on data compiled from 1,635 U.S. private equity funds, including fully liquidated partnerships, formed between 1986 and 2024. The investments within a private equity fund and the corresponding performance volatility thereof may differ significantly from the securities that comprise the Cambridge Index, which may contain strategies and asset types a private equity fund does not utilize. 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. Pomona does not pay any fees to Cambridge Associates to be ranked.
- (3) The "MSCI World Index" is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 23 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. 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 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.
- (4) Represents (i) aggregate capital commitments from investors to Pomona-sponsored funds, (ii) investments made by Pomona on behalf of its discretionary separate account clients, and (iii) investment recommendations made to Pomona's non-discretionary separate account clients, which total \$715M. Pomona's regulatory assets under management (RAUM) as of December 31, 2024 (latest available) is \$13.3B. RAUM is defined by the U.S. SEC and further information is available: <https://reports.adviserinfo.sec.gov/reports/ADV/148269/PDF/148269.pdf>.
- (5) Low risk profile refers to the "Loss Ratio" which encompasses transactions that are realized and unrealized that are below cost (1.0x), (ii) using paid-in capital less distributions and current net asset value of the transaction, and (iii) net of all actual underlying fund-level management fees, carried interest and expenses but gross of any Pomona fund-level management fees, carried interest and expenses.

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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