What is a Secondary?

About Pomona

- Founded in 1994, Pomona Capital is a global private equity firm that has ~$18 billion[1] 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 $900B+ in secondary transactions and purchased ~750 funds, totaling investments in 10,000+ companies. Pomona has a demonstrated track record of delivering benchmark beating[2] returns and liquidity with a relatively low risk profile over multiple economic cycles.

Private Equity Overview

Private equity typically refers to equity investments made into companies not listed on any stock exchanges using private capital. Private equity firms, the largest group of private equity investors, raise capital from a variety of institutional and individual investors who commit money for long periods.

Capital can be deployed at various stages of a business's life cycle to develop new products and technologies, expand working capital, make acquisitions, strengthen a company's balance sheet or take a public company private, among others. Private equity investments often demand long holding periods to allow for operational enhancements of a company or a liquidity event such as an IPO. If portfolio investments are realized/sold, the investors generally receive proceeds back.

For investors seeking the potential to enhance the risk and/or return characteristics of their investment portfolio, private equity offers a complement to traditional investments.

Accessing Private Equity

There are different options through which investors can gain exposure to private equity.

Primary Fund of Funds	Secondaries	Primary Direct Funds	Co-Investments
• Diversified portfolio of interests in blind pool funds enables access as well as administrative and due diligence efficiency • Broad exposure • Performance is largely dependent on the ability of the manager to select and manage successful investment opportunities	• Ability to access mature funds typically with greater transparency and often at attractive discounts • Significant diversification and potential early cash flow	• Local Market: LP interests in funds with direct control over portfolio in regions familiar to investor • Sector, Style: Ability to focus on high growth sectors, market segments, or industries directly • Blind pool risk • Less diversified than fund-of-funds	• Flexibility to opportunistically participate in private equity transactions alongside other partners

Indirect ⟷ Direct

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Primary & Secondaries Funds

Two ways in which investors can gain access to private equity is through investments in secondary and primary funds. Investments in the primary market are made directly into newly formed private equity funds. In the secondary market, investors buy existing limited partner private equity interests from other limited partners. There are distinct differences with each approach.

Investment Characteristic	Secondary Fund	Primary Fund
Definition	A Limited Partner interest is sold to another investor, considered to be the "second"	Direct investment in blind pool limited partnership
Types	Traditional secondaries, secondary direct, and secondary co-investments; all private equity asset classes	Leverage buyout growth capital, venture, mezzanine, special situation and all other
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 years 1-7	Typically years 5-10
Diversification	By vintage year, type, size, sector & geography	More limited
Potential Benefits*	Early IRR gains & cash flow potential	Higher multiple return potential

Secondaries

Secondaries are typically acquired in privately negotiated transactions as there is no established market for secondaries. When purchasing a secondary, the buyer will agree to purchase an investor's existing limited partnership position in a fund or portfolio of funds, typically at a discount to net asset value. Secondary transactions are primarily purchases of funds that are three to seven years old with existing underlying portfolio companies. Secondary sales are often driven by an investor's need for liquidity or active approach in managing their private equity portfolio.

Secondaries are composed of existing assets, which means the underlying fund has already deployed the majority of its capital to portfolio companies. The risk associated with investing in a "blind pool" of assets in a primary fund is often reduced in a secondary investment.

Furthermore, write-offs and losses, which may occur in the early years of a private equity investment may be lessened when acquiring a fund at a later stage of its life. As a result, secondary private equity investments are viewed as more mature investments than primary funds, and secondary investors sometimes enjoy shorter investment periods and accelerated returns on invested capital. With respect to investment returns from secondary investments, the pronounced cash flow and "J-curve" characteristics that are normally associated with primary investments may be mitigated.

Potential Benefits* of Secondaries Investing	
Price Discount	Potential ability to purchase seasoned and high-quality assets at a discount to net asset value
Shortened Holding Period	Buying into a partnership at a later stage creates a significant time discount, shortening the investment's holding period, with the goal of realizing earlier distributions
Reduced Blind Pool Risk	Purchases of secondary interests in funds that are nearly or fully invested and mature allow experienced investors to carefully analyze the underlying assets
Diversification	Buying into a series of more mature funds generally offers an opportunity to achieve immediate diversification across vintage years, industries and geographies
Reduced Cost	Typically, avoidance of early year fees and expenses
Inefficient Market	Though the secondary market is growing rapidly and transactions in certain segments of the market have become more competitive, the specialized knowledge required to source, analyze and close investments can create a high barrier to entry

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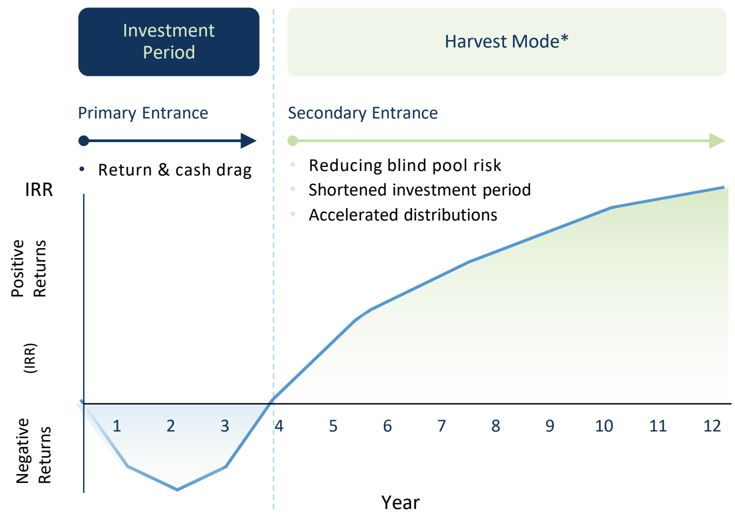
What is the J-Curve?

In the initial years of a traditional primary investment, a fund will generally exhibit low or negative returns and cash flows. This is normal as during this time of a fund's lifecycle, the private equity fund manager is making investments, which may have a dragging effect on the internal rate of return (IRR).

Proceeds returned back to investors from realized investments usually don't occur until after year 5 of when the investment is made. Investing in 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 that can mitigate the J-curve effect.



- Generally, primary and secondary investors may both enjoy positive returns in later years of a fund, but secondary investors may receive those returns within a shorter investment time frame
- Cash distributions typically occur earlier in the life cycle of secondary funds and are more evenly distributed

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Footnotes & Disclaimers

(1) 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 $670M. Pomona's regulatory assets under management (RAUM) as of September 30, 2023 (latest available) is $13.1B. RAUM is defined by the U.S. SEC and further information is available: https://reports.adviserinfo.sec.gov/reports/ADV/148269/PDF/148269.pdfS&P 500 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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