Diversification Strategies for the Next Phase of the Cycle:

Understanding the Benefits of Secondary Private Equity

Executive Summary

- At this stage in the cycle, many investors are seeking strategies that can insulate their broader portfolio from downside volatility without completely sacrificing the upside potential of public equities
- Secondary 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 20 years
- Going forward, we believe the secondary private equity market is well positioned to provide diversification benefits, attractive risk-adjusted returns and potential for accelerated liquidity

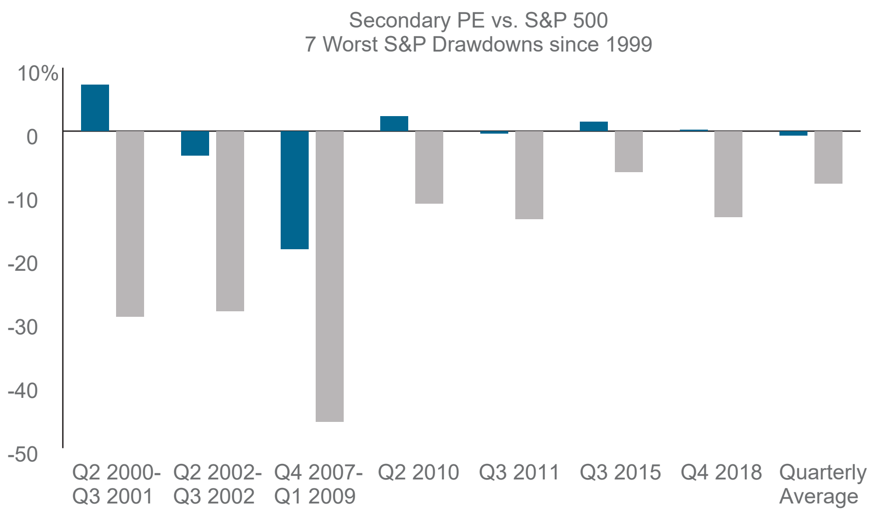
Will the next ten years look like the last ten years?

Many investors agree that the next ten years will look materially different than the last ten. Following the 2008 crisis, extraordinarily accommodative monetary policy ignited a decade of risk taking that has buoyed public equity markets. As of June 30, 2019, the S&P 500 index is 88% above its 2007 peak and up 335% from the bottom in March 2009.

Against this backdrop, many investors are seeking alternative investments that can offer downside protection and low correlation to traditional public equity allocations. We believe the private equity (PE) secondaries market can help investors meet these diversification goals while also maintaining the potential for upside participation.

Scorecard: Secondary Private Equity versus Public Equity

Secondary Private Equity has delivered downside protection...



...without sacrificing upside returns and mitigating risk

Twenty years ending December 31, 2018. Source: Cambridge Associates and Standard & Poors. The Secondary PE index represents a horizon calculation based on data compiled from 242 secondary funds, including fully liquidated partnerships, formed between 1991 and 2018. Investors cannot invest directly in an index. The equity drawdown periods identified in the chart above span 18 different quarterly periods. The Quarterly Average is calculated by taking the sum of returns in each of the 18 quarters and dividing the sum by 18 to reflect the number of quarters observed. Unless otherwise noted, all statements herein (i) reflect the opinion of Pomona/Voya and its overall view of the financial markets, and the secondary private equity market in particular, and (ii) should not be construed as investment advice.

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Characteristics Well Positioned for Today's Challenges: Overview of Secondary Private Equity

As demonstrated, Secondary Private Equity has a track record of delivering downside protection without sacrificing upside potential, an outcome that is critical for investors using alternatives to bolster the risk profile of their broader portfolio. While various alternative strategies have similar track records, we believe PE strategies focused on opportunities in the secondary 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 Secondary 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. In other words, when primary investors in PE funds decide they want to exit their PE investment early, they tap the "Secondary PE 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 secondary private equity 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 in the Secondary PE market, 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 Secondary PE strategies with the appropriate industry relationships can often gain access to investments made by highly coveted private funds that are closed to new investors.

Enhanced Portfolio Visibility

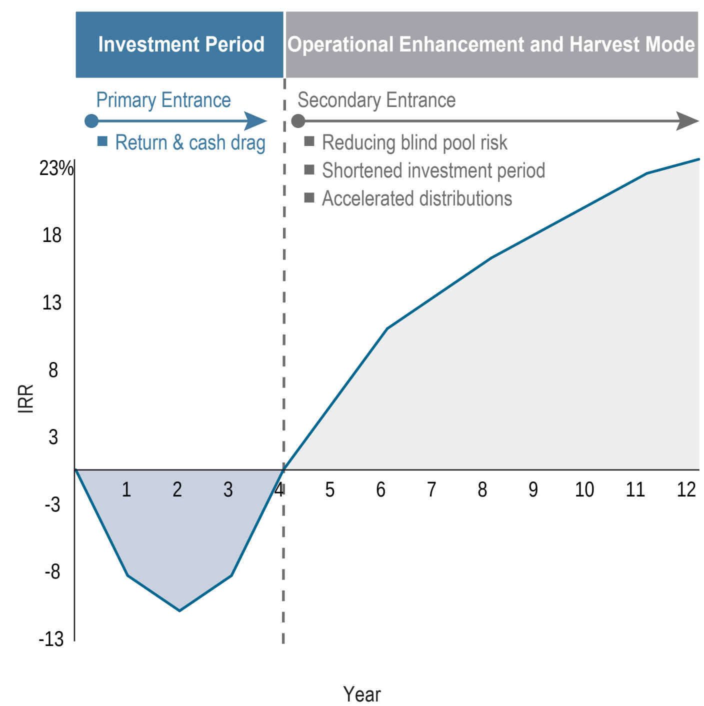
One of the key differences between primary and secondary investors is the level of insight into the underlying assets. Primary investors are basing their expectations for each underlying company's future performance primarily on a private equity manager's previous success. For example, if a private equity 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 Secondary PE strategies are able to analyze and underwrite all of the underlying assets of each PE fund that is acquired in the Secondary PE market, enhancing visibility into growth, exit expectations and near-term liquidity.

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 secondary investor is subsequent to the investment, the capital is already invested and the portfolio is now at a point of realizing gains (or losses). This typically allows investors to mitigate the j-curve and receive capital back in a more timely fashion.

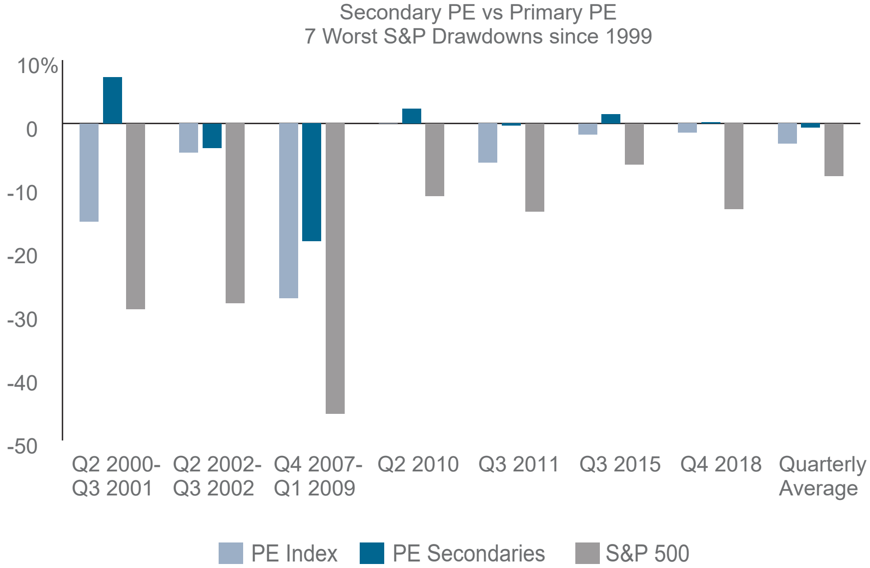
Secondary Private Equity vs Primary Private Equity

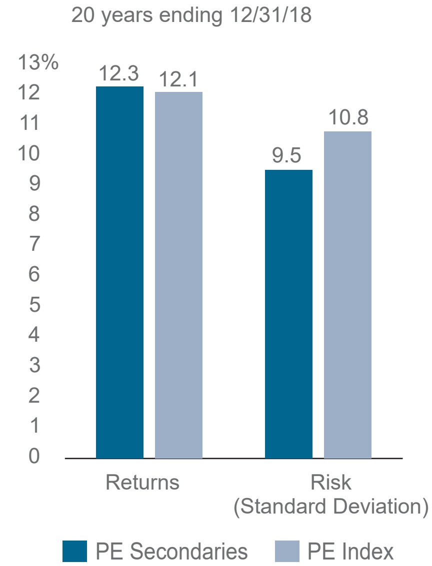
Investment Characteristics	Secondary Strategy	Primary Strategy
Definition	A Limited Partner interest is sold to another investor, considered to be the "second" purchaser of the LP interest	Direct investment in blind pool limited partnership
Assets Acquired	Funded, mature underlying portfolio companies 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



Source: Voya Investment Management and Pomona Capital.

Putting It All Together:
Secondaries have Delivered Even More Historical Downside Protection than Primary PE strategies





Twenty years ending December 31, 2018. Source: Cambridge Associates and Standard & Poors. The Secondary PE index represents a horizon calculation based on data compiled from 242 secondary funds, including fully liquidated partnerships, formed between 1991 and 2018. The PE index represents a horizon calculation based on data compiled from 2,620 private equity funds, including fully liquidated partnerships, formed between 1986 and 2018. Investors cannot invest directly in an index. The equity drawdown periods identified in the chart above span 18 different quarterly periods. The Quarterly Average is calculated by taking the sum of returns in each of the 18 quarters and dividing the sum by 18 to reflect the number of quarters observed.

Today's Capital Raised is Tomorrow's Secondary Opportunity

Media outlets have picked up on the tremendous growth in private markets during the last decade. And for good reason. Private equity has grown more than sevenfold since 2002, twice as fast as global public equities. In the United States, the number of PE-backed companies more than doubled between 2006 and 2017, while publicly traded firms declined by almost one-fifth.

As the PE market grows, so does the opportunity set for private equity managers employing a PE Secondary strategy. Private equity firms have raised over $4.3 trillion since 2013 to bring total global PE assets under management to a record of more than $5.8 trillion. As a result, over that same period, the PE Secondaries market has expanded substantially with a compound annual growth rate of over 21%, leading to a record of over $74 billion in consummated transactions in 2018 alone. We anticipate this level of PE asset growth to continue to contribute to an increasing secondaries market. PE 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 Secondary PE strategies 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 compelling discounts exist for secondary investors that demonstrate: an ability to remain disciplined in its investment thesis, access coveted private equity fund managers for transfer consent, gain enhanced insight into underlying portfolio dynamics and cautiously navigate market volatility while proactively seeking opportunities to construct a portfolio of choice.

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Pomona Capital is a global private equity firm with approximately $10.6 billion in capital commitments across its sponsored funds and separate accounts since being founded in 1994. Pomona manages secondary, primary, and co-investment strategies for a global group of over 370 sophisticated investors. Over 25 years, Pomona has analyzed over $400 billion in secondary transactions and purchased over $5.3 billion in secondary interests. Pomona's global team is comprised of over 40 professionals based in New York, London and Hong Kong.

Disclosures

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General Private Equity Risks.

Risks that are inherent in private equity investments are generally related to: (i) the ability of each Investment Fund to select and manage successful investment opportunities; (ii) the quality of the management of each company in which an Investment Fund invests; (iii) the ability of an Investment Fund to liquidate its investments; and (iv) general economic conditions. Securities of private equity funds, as well as the portfolio companies these funds invest in, tend to be more illiquid, and highly speculative.

General Risks of Secondary Investments.

There is no established market for secondaries. Moreover, the market for secondaries has been evolving and is likely to continue to evolve. It is possible that competition for appropriate investment opportunities may increase, thus reducing the number and attractiveness of investment opportunities available.

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