

PRESS RELEASE

Survey shows a significant disparity between GP and LP thinking on GP-led secondary transactions

Dallas, TX, 24 October 2022: According to a new survey focusing on GP-led Secondaries from Capstone Partners, a Mizuho company, the last 12 months have seen a dramatic increase in the number of GP-led transactions reviewed by LPs. They have become increasingly valid alternatives to more traditional M&A and public equity exit solutions for many LPs and GPs at a time of scarce liquidity.

- › 67% of participating LPs reviewed less than 10 transactions in 2021, while 50% of LPs reviewed more than 10 transactions in H1 2022 alone.
- › 51% of LPs and 40% of GPs now see GP-led secondaries as one of the main exit options.

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However, despite the increase in available transactions, Capstone's survey highlights that there is a significant gap between LP and GP's priorities and concerns.

For LPs, it is critical that GPs maintain enough economic interest in the game, with carry rollover seen as the most important element of a successful GP-led process, and lack of it posing a significant red flag. This is not entirely mirrored among GPs, with a significant proportion unwilling to significantly roll over their carry.

- › Carry rollover is seen by LPs as the most important element for a successful process (64% of the time), and lack of rolled over carry is viewed as the biggest red flag raised by LPs (37% of the time). Conversely, it is seen as a significant red flag by only 7% of surveyed GPs and c. 30% say they are unwilling to substantially roll over their carry.
- › For LPs the next most important element for a successful process are quality of the asset (61% of the time) and quality of the GP (40% of the time).

Furthermore, the survey shows that LP's red flags are not well understood by GPs, with both parties citing different concerns.

- › For LPs, the critical red flags in any transaction are lack of carry rollover, misalignment and lack of or wrong motivation.
- › These do not wholly align with GPs who cite a lack of competitive pricing or conflict of interest as the critical red flags for their investors during the transaction process.

Similarly, the challenges experienced by GPs during the process are not entirely appreciated by LPs, particularly when it comes to coordination of different stakeholders.

- › While conflict of interest as well as existing LP management are cited by both groups, almost half of surveyed GPs indicate that the coordination of the different stakeholders is an important challenge that they face. No LPs recognized this as a serious concern for GPs.

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- › Some LPs also indicate that GP-led processes are viewed as being distracting for GPs while no GPs acknowledged this consequence.

For many GPs, a secondary process presents no reputational risk. However, LPs are more conservative in their view, with over a third of surveyed LPs seeing GP-led transactions as having a negative impact on future fundraising.

This misalignment in thinking is all the more significant as the increase in GP-led processes has not been matched by any increase in LP resources. They have not materially grown in tandem.

- › 80% of the time, these teams underwrite more than secondary deals, being in charge of co-investments and/or primary investments.

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Steve Standbridge, Managing Partner and President of Capstone Partners, a Mizuho company, commented:

"Despite the increasing prevalence of GP-led secondary transactions in the current market, our survey shows that there is a clear misalignment in the way that they are viewed by GPs and LPs. This reflects the fact that the market is still relatively nascent and evolving fast. As the market matures, with more participants, an increased number of deals, more competition and a broader buyer base, we are likely to see this gap narrow and a more aligned view emerge on the benefits of good quality GP-led secondary transactions. The current difficulties in exiting portfolio businesses via traditional M&A and public equity channels will bring this into even sharper relief, with both parties witnessing the mutual benefits that they can bring through increased liquidity, lower investment risk and a longer hold of trophy assets."

He added: *"It certainly highlights the important of a secondary adviser to better align these two stakeholder groups at a time when only the best GP-led transactions are likely to get LP attention and close successfully."*

- Ends -

Notes to Editors

Capstone's GP-led Secondaries Survey was conducted among 110 global participants, including GPs and LPs.

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About Capstone Partners, a Mizuho Company

Capstone Partners, a Mizuho Company, is a leading placement agent focused on fundraising and advisory services for private equity, credit, real assets, and infrastructure investment firms. It has a global network of more than 1,500 Limited Partners across the US, Europe, and Asia.

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Capstone was named "Best Placement Agent" by Private Equity Wire in 2021, following a year when its clients held closes totaling more than \$10 billion in fund commitments.

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