MULTIPLICITY
PERSPECTIVES

Q2 / 2022

GP-LED SECONDARIES: CONTINUATION FUNDS AREN'T JUST FOR TROPHY ASSETS

A lot has changed in the secondaries market over the past few years. Suddenly, GP-leds make up half of the market volume and continuation funds are the standard tool now for GPs to hold on to companies longer, rather than selling their treasures outright to a competitor. As elsewhere in financial markets, all eyes are on growth. It's all about how you ride the momentum of your biggest trophy assets. Or is it not?

RESCUE YOUR MOST VALUABLE LAGGARDS

Rather than joining the crowd, Multiplicity is looking to cater the most underserved segments of the secondary market. This can be LP-secondaries on small niche funds, or it can be smaller GP-leds on more difficult portfolios with assets lacking a clear growth trajectory. The latter has become an increasingly important deal type for us in the last twelve months. After convincing ourselves of the portfolio's intrinsic value, we work closely with the GP of an end-of-life fund to deliver a liquidity solution tailored to the needs of LPs and the underlying portfolio.

Let us look at the toolbox that is available to GPs, LPs and incoming investors resp. secondary buyers like Multiplicity.

PROLIFERATION OF THE GP-LED TOOLBOX

"God gave you eyes, plagiarize."

There is no copy right in deal structuring, hence smaller market participants moved quickly and used innovative new transaction structures involving preferred equity and various other features for smaller and smaller transactions. Today, we see even sub-$50 million deals combining a range of features from the GP-led repertoire.

Continuation fund

Backdrop

- Duration mismatch of portfolio exits and fund life
- Portfolio companies or single asset require additional funding
- Companies with substantial upside

Solution

- New fund to acquire portfolio or single asset with potential for additional funding
- Existing LPs can sell or roll

Preferred equity

Backdrop

- Portfolio companies require additional funding or equity cure
- Capital distribution to LPs seeking liquidity
- Companies with substantial upside

Solution

- Typically NewCo created to provide preferred equity and get priority rights on future cash flows

Tender offer

Backdrop

- LPs indicating desire for liquidity/expedited exit
- LPs not doing re-up and looking to reduce relationships

Solution

- Auction process where buyers bid on purchasing LP interests

Strip sale

Backdrop

- Portfolio with substantial unrealized profits but suboptimal exit environment
- LPs looking for distributions before committing to new fund

Solution

- NewCo created to acquire portion of each portfolio company and fund potential capital calls pro-rata going forward

Stapled primary

Backdrop

- LPs indicating desire for liquidity/expedited exit
- LPs not doing re-up and looking to reduce relationships

Solution

- GP looking for secondary investor with primary capacity
- Hybrid transaction whereby the GP-led sale of interests in an existing fund to a buyer is concurrent with a primary capital commitment of the buyer into the GP's new fund

Spin out

Backdrop

- Exit of corporate investment programme through management buyout
- Investment firm looking to exit certain portfolios through team spinning out and seeking new sponsor

Solution

- NewCo and new GP created to acquire and manage target portfolio

In our transactions so far, we typically combined the first three elements: continuation fund, preferred equity and tender offer.

Given our focus on assets with a certain visibility on cash flows (exits) in the next two to four years, we would typically refrain from stapled deals, a deal type that is more suitable to secondary investors that are part of a fund-of-funds group.

SOME CASE STUDIES

Let us look at some deep-value secondaries investments that we structured together with GPs over the past twelve months or that we currently have in the deal pipeline.

Case study 1

Target fund

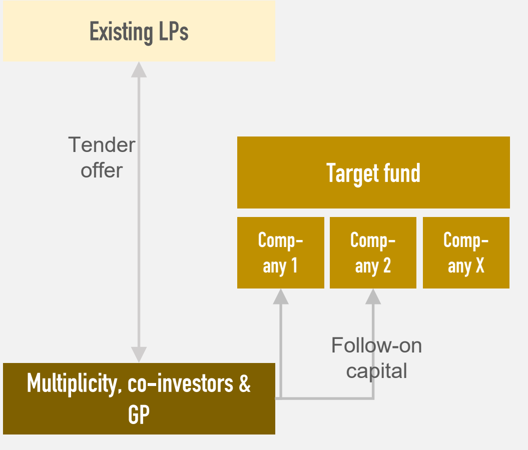
- Strategy: Buyout
- Region: Latin America
- Age of fund: 14 years

Portfolio

- 4 remaining assets, partially doing fine, partially struggling and requiring fresh capital
- all overshadowed by a large potential liability in the form of an indemnification claim related to a large exit a few years back

Solution

- tender offer to existing LPs
- injection of fresh capital to safe certain target companies
- creation of continuation fund with substantial GP commitment and reset of carry



Case study 2

Target fund

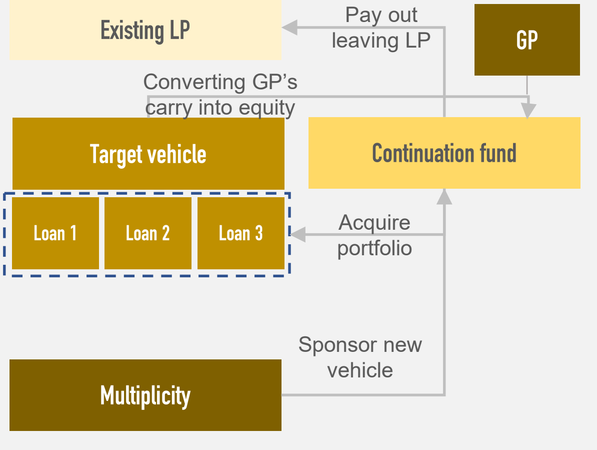
- Strategy: Private debt
- Region: Asia
- Age of fund: 10 years, non-standard lending facility structure without usual extension mechanism

Portfolio

- 3 defaulted loans in workout plus some blocked cash due to legal dispute

Solution

- buy interest of largest LP representing approx. 50% of NAV who desired swift exit
- creation of low cost continuation fund with substantial GP commitment and conversion of the GP's substantial unrealized carry into an equivalent equity interest



Case study 3

Target fund

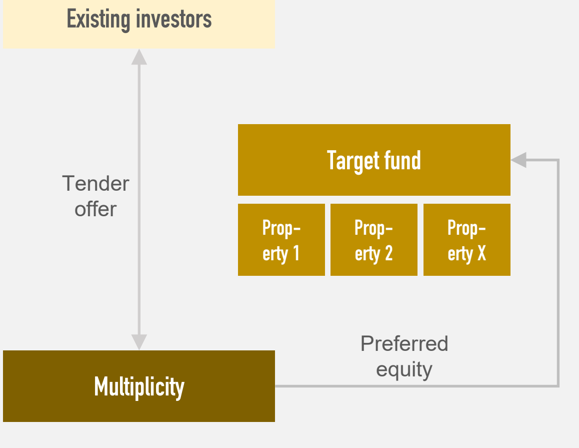
- Strategy: Real estate
- Region: Central Europe
- Age of fund: open-end retail investor fund that suspended redemptions several years ago

Portfolio

- buy-to-let residential and mixed-use properties acquired for buy-to-let strategy
- few development projects

Solution

- offer liquidity to investors with outstanding redemptions
- preferred equity investment to cover the substantial operating expenditures, debt financing costs and restructuring-related expenses
- start orderly liquidation of portfolio with a 3 year time horizon



Since 2010 our credo has been “providing liquidity and creating value in illiquid assets”

Since the beginning of our firm in the aftermath of the Great Financial Crisis, we focused on providing liquidity solutions that created a win-win for buyer and seller. Our initial focus was purely on LP secondaries.

With our expanded toolkit of the GP-led “technology”, we now strive to develop transactions that are equally appealing to the GP, selling LPs and the secondaries investor. What has not changed is our focus on deals shunned by the mainstream secondaries buyers. We like to summarize our deal sweet spot along four dimensions.

		MOST DEMAND/ COMPETITION	OUR FOCUS	
1	DEAL SIZE	$10 million to $1 billion	< $ 10 million per asset	We consider deals that are shunned by others – no minimum size
2	VINTAGE	Early to mature funds	Tail-end funds	Focus on assets with visibility on cash flows/exits in next 2-4 years
3	ASSET CLASS	Private equity – “mainstream”	Other private markets – “niches”	90% of secondary market volume is in PE/VC, we look at the rest
4	INVESTMENT TYPE	Growth cases & quality assets	Special situations & troubled funds	We look for “special sits” where EBITDA multiples do not necessarily define value

Do you have any questions or feedback for us? Please contact Andres at ah@mpag.com, or call him on +41 44 500 4555.

Andres is a Partner of Multiplicity Partners and the Portfolio Manager of the LTO Funds. He has 20 years of experience in alternative investments, distressed investing and portfolio management.
Before joining Multiplicity in 2012, he held various investment roles with the alternative asset managers Horizon21 and Man/RMF. Andres holds a MSc in Mathematics from the University of Zurich and is a CFA and CAIA Charterholder.

ABOUT MULTIPLICITY PARTNERS

Multiplicity Partners is an investment firm specialised in providing liquidity solutions to holders of private market funds and distressed assets. The firm also offers a range of advisory and governance services across alternative assets.

Multiplicity Partners has been an active participant in the secondary market for fund interests and distressed assets since 2010. The team has successfully completed more than a hundred transactions across a wide range of illiquid and complex financial assets. Each partner contributes more than 15 years of relevant experience, giving us the collective capabilities to effectively identify, analyse and execute attractive investment opportunities in hard-to-value assets. Multiplicity Partners was founded in 2010 and is based in Zurich, Switzerland.

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