

Navigating the Secondary Market in Uncertain Times

Relationships, experience, and timing will help to drive value through the current crisis

2020 has been a turbulent year so far. How is Portfolio Advisors engaging with the secondary market?

Our 2020 game plan is consistent with our historical approach: purchase LP interests in funds managed by GPs we know well from our primary investing program. The relationships we've formed over 26 years have always been valuable, and they're absolutely critical today. We believe sponsors experienced in navigating through market dislocations will be best positioned to drive value through the current crisis. Focusing our secondary investing on groups fully vetted through our primary program – with the advantages of information, access, and certainty of transfer – should enable us to generate better risk-adjusted returns. Now is not a time for exposure to inexperienced managers.

Have you seen any impact on pricing yet from the crisis?

Definitely. Buyers have to account for near-term markdowns, and sellers are adjusting to deeper discounts. Also, in a low-valuation environment, entry timing is important. We believe it will take time for the economy to heal, so we see this buying opportunity, combining wider discounts and lower entry valuations, persisting into 2021.

In what part of the secondary market is Portfolio Advisors most active?

We focus on LP interests, not GP restructuring opportunities. In 2019, the LP interests segment of the secondary market comprised \$60bn of all the deals done – twice the total of GP restructurings. That's an enormous arena for buyers to identify attractive opportunities with well-known managers.



Patrick Gerbracht

Managing Director, Portfolio Advisors

Are there any areas you are underweighting?

We've historically materially underweighted energy exposure, and that's given our investors peace of mind. Commodity-price-driven transactions can add significant volatility to a portfolio. Retail is another area we've generally avoided. Companies like Amazon have completely reshaped consumer patterns, and traditional retailers, even before COVID-19, were under massive pressure.

In contrast, what's a private equity sector you've found attractive?

We like growth. Older venture portfolios, with high revenue-growth companies, are compelling. These are often smaller deals, where our middle-market approach may have advantages over larger players focused on billion-dollar portfolios. We know valuation multiples fluctuate in crisis times, but fast-growing companies can drive return even if multiples are compressed.

About Portfolio Advisors

Patrick Gerbracht is a Managing Director on the secondary team at Portfolio Advisors (PA). PA is an independent, employee-owned, global firm with \$26.9bn in assets under management across private equity, real estate, and credit.