How Secondaries Are Reshaping the Private Equity Market

The evolution of the private equity secondaries market from a niche to a mainstream investment strategy is a testament to its resilience and adaptability.

Private equity: From birth to prominence

Although private equity (PE) has been around since the 1940s, the industry has undergone decades-long maturation that has led to more prominence in investor portfolios—and the emergence of secondaries private equity.

1946: Early beginnings
First venture capital firms (American Research and Development Corp and J.H. Whitney & Co)

1960-70s: Development
First private equity partnerships with institutional investors and the beginning of leveraged buyout strategies (LBOs)

1980s: Golden age
Rapid growth of buyouts (e.g. RJR Nabisco)

1984: Emergence of secondaries
First secondary private equity fund launched in 1984

1990s: Expansion
Introduction of new PE strategies and global expansion

2000s: Capital growth
Significant increase in capital inflows and public listings: Blackstone Group (2007), Apollo Global Management (2011), KKR & Co (2010) and others

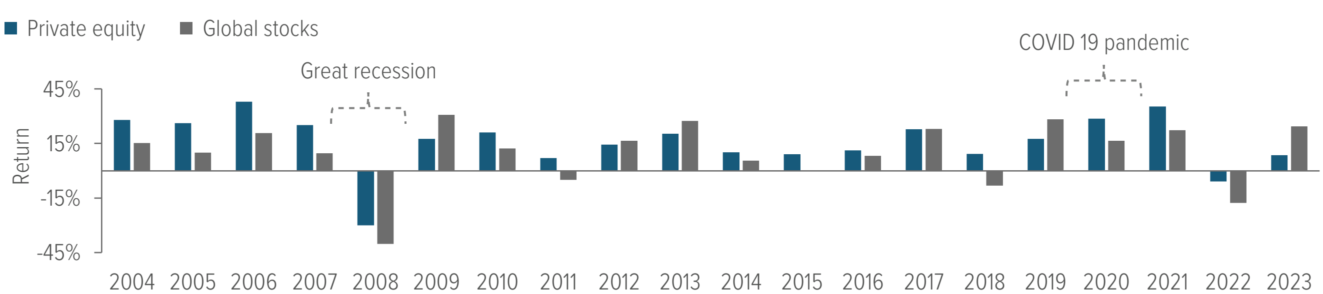
2010s: Expanded accessibility
Increase growth in '40 Act retail products with focus on PE for individual investors

Private equity resilience captured investor attention

One of the key drivers behind the surge in private equity's popularity has been its strong performance, both in stable and volatile markets (Exhibit 1). Over the last two decades, private equity has outperformed global stocks in 15 out of 20 years, by an average of 6%. This has sparked significant investor interest, with U.S. private equity funds raising $2.7 trillion over the last 10 years.[1]

Exhibit 1: Private equity has shown greater resilience than public markets

Returns of private equity vs global stocks



As of 12/31/23. Source: Cambridge Associates, MSCI. Private equity represented by the JS Cambridge Private Equity Index. Global stocks represented by the MSCI World Index. See disclosures for index descriptions

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Beyond the potential for higher returns, private equity opens a vast landscape of opportunities. For every public company in the U.S., there are a thousand privately owned businesses, making up roughly 99.9% of all corporate investment prospects in the U.S.[2]

Emergence of the secondary PE market and how it works

Private equity involves investing in companies not traded publicly, typically accessed through funds managed by a private equity firm as the general partner. Investors—known as limited partners (LPs)—commit capital for potentially long periods, making these investments "illiquid" compared to public stocks. The private equity secondaries market emerged in response to the growing demand by investors to access their capital before the fund's investments are fully realized (i.e. sold).

Secondary fund managers buy these interests, often at a discount to net asset value, and pool them into investment vehicles, such as a registered '40 Act fund.

Secondaries PE offer three potential key advantages:

1 **Quicker returns than primary PE:** Secondary transactions usually happen midway through a fund's lifecycle, skipping the early investment period—when expenses incur and growth may be limited—and potentially offering shorter investment periods and accelerated returns.

2 **Enhanced transparency:** When investing in a new primary private equity fund, investors may not know the future holdings. However, secondary funds consist of existing assets of the underlying fund, generally providing better visibility into holdings and potentially mitigating downside risk. During the seven worst public market drawdowns in the past 20 years, secondary PE declined 3.7% while primary PE fell 10.4% and public equities lost 24.9%, on average.[3]

3 **Discount opportunities:** Secondary sales are often driven by an investor's need for liquidity. Typically, the existing fund owner sells the interest at a discount to net asset value. The average market discount over the last five years was 9%,[4] potentially presenting attractive opportunities for investors.

Secondaries may deliver a liquidity boost

In the initial years of a traditional primary investment, a fund will generally exhibit low or negative returns and cash flows. This is normal at this stage of a fund's lifecycle when the private equity fund manager is making investments. Proceeds returned to investors from realized investments (typically when a company is sold) usually don't occur until after year 5 from when the investment was 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, potentially providing early positive liquidity.

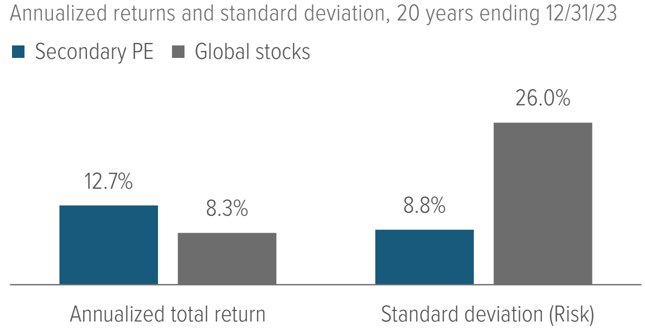
A maturing market with opportunities and challenges

Challenging economic conditions and tight financing markets have slowed deal making in recent years. But it isn't all bad news; the opportunity set in secondaries private equity is rapidly growing as primary LPs seek liquidity outside of traditional exit strategies. Active management and this need for liquidity have propelled secondaries to the fastest growing segment within the private equity industry, with deal volume rising from $2 billion in 2001 to $112 billion in 2023.[5]

Secondaries PE historically has provided an attractive blend of higher risk-adjusted returns compared to public equities, along with a faster liquidity profile over primary private equity investments. This combination presents a strong argument for diversifying beyond the conventional 60/40 stock and bond portfolio mix by incorporating secondary funds to meet investment objectives.

Exhibit 2: Private equity has shown greater resilience than public markets

Annualized returns and standard deviation, 20 years ending 12/31/23



As of 12/31/23. Source: Cambridge Associates, Pomona Capital. Secondary PE is represented by the Cambridge Secondary Fund Index. Global stocks is represented by the MSCI World Index. See disclosure for index descriptions.

A note about risk

Investing in private equity is a risk and there is no guarantee that an investment in private equity or in a Pomona sponsored fund will be profitable. The above scenarios are for illustrative purposes only and are theoretical; there is no guarantee an investment in a Pomona-sponsored fund will exhibit any of the above characteristics or return profile.

Discussed below are the investments generally made by Investment Funds and the principal risks that the Adviser and the Fund believe are associated with those investments and with direct investments in operating companies. These risks will, in turn, have an effect on the Fund. In response to adverse market, economic or political conditions, the Fund may invest in investment grade fixed income securities, money market instruments and affiliated or unaffiliated money market funds or may hold cash or cash equivalents for liquidity or defensive purposes, pending investment in longer-term opportunities. In addition, the Fund may also make these types of investments pending the investment of assets in Investment Funds and Co-Investment Opportunities or to maintain the liquidity necessary to effect repurchases of Shares. When the Fund takes a defensive position or otherwise makes these types of investments, it may not achieve its investment objective.

The value of the Fund's total net assets is expected to fluctuate in response to fluctuations in the value of the Investment Funds, direct investments and other assets in which the Fund invests. An investment in the Fund involves a high degree of risk, including the risk that the Shareholder's entire investment may be lost. The Fund's performance depends upon the Adviser's selection of Investment Funds and direct investments in operating companies, the allocation of offering proceeds thereto, and the performance of the Investment Funds, direct investments, and other assets. The Investment Funds' investment activities and investments in operating companies involve the risks associated with private equity investments generally. Risks include adverse changes in national or international economic conditions, adverse local market conditions, the financial conditions of portfolio companies, changes in the availability or terms of financing, changes in interest rates, exchange rates, corporate tax rates and other operating expenses, environmental laws and regulations, and other governmental rules and fiscal policies, energy prices, changes in the relative popularity of certain industries or the availability of purchasers to acquire companies, and dependence on cash flow, as well as acts of God, uninsurable losses, war, terrorism, earthquakes, hurricanes or floods and other factors which are beyond the control of the Fund or the Investment Funds. Unexpected volatility or lack of liquidity, such as the general market conditions that prevailed in 2008, could impair the Fund's performance and result in its suffering losses. The value of the Fund's total net assets is expected to fluctuate. To the extent that the Fund's portfolio is concentrated in securities of a single issuer or issuers in a single sector, the investment risk may be increased. The Fund's or an Investment Fund's use of leverage is likely to cause the Fund's average net assets to appreciate or depreciate at a greater rate than if leverage were not used.

The Fund is a non-diversified, closed-end management investment company with limited performance history that a Shareholder can use to evaluate the Fund's investment performance. The Fund may be unable to raise substantial capital, which could result in the Fund being unable to structure its investment portfolio as anticipated, and the returns achieved on these investments may be reduced as a result of allocating all of the Fund's expenses over a smaller asset base. The initial operating expenses for a new fund, including start-up costs, which may be significant, may be higher than the expenses of an established fund. The Investment Funds may, in some cases, be newly organized with limited operating histories upon which to evaluate their performance. As such, the ability of the Adviser to evaluate past performance or to validate the investment strategies of such Investment Funds will be limited. In addition, the Adviser has not previously managed the assets of a closed-end registered investment company.

Closed-End Fund; Liquidity Risks: The Fund is a non-diversified closed-end management investment company designed principally for long-term investors and is not intended to be a trading vehicle. An investor should not invest in the Fund if the investor needs a liquid investment. Closed-end funds differ from open-end management investment companies (commonly known as mutual funds) in that investors in a closed-end fund do not have the right to redeem their shares on a daily basis at a price based on net asset value.

[1] As of 09/30/24. Source: Pitchbook, U.S. PE Breakdown, 3Q24; total fundraising 2014-2023.

[2] As of 09/30/24. Source: Statista, Kaiser Family Foundation, Pomona Capital. Estimated number of companies based on most recent common available data. Public companies: Statista, "NYSE and Nasdaq: Listed companies comparison, 2023," 05/17/24. Private companies: Kaiser Family Foundation (kff.org), Number of Private Sector Firms by Size, 2023. Private company/industry examples: Pomona Capital.

[3] As of 12/31/23. Source: Voya IM, Cambridge Associates, FactSet. Secondary PE represented by the Cambridge Secondary Index, Primary PE represented by the Cambridge U.S. Private Equity Index and public equities represented by the S&P 500.

[4] Source: Jefferies Global Secondary Market Review (Jan 2024) and Evercore H1 2024 Secondary Market Survey Review (July 2024).

[5] Data source from 2001 through 2014: Greenhill-Cogent Partners "Secondary Market Trends & Outlook, July 2015", Capital Dynamics, July 2015. Data source from 2013 through 2023: Bain & Co Private Equity Report 2024 report.

The **MSCI World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 23 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. (https://www.msci.com/world) while Pomona' focuses on primarily purchasing secondary interests in private equity funds. The MSCI World Index has not been selected to represent an appropriate benchmark to compare an investor's performance, but rather is shown as a comparison to that of a well-known and widely recognized index. The MSCI World Index is not subject to any of the fees and expenses to which any Pomona fund would be subject and no fund sponsored by Pomona Capital will attempt to replicate the performance of the MSCI World Index.

The **Cambridge Secondary Funds Index** is based on unaudited quarterly performance data compiled from 334 secondary funds (excluding hard assets funds), including fully liquidated partnerships, formed between 1991 and 2023. The index has limitations (some of which are typical to other widely used indices) and cannot be used to predict performance of the Fund. These limitations include: 1. Survivorship bias (the returns of the index may not be representative of all secondary funds in the universe because of the tendency of lower performing funds to not report returns to the index); 2. Lack of transparency (the specific funds that are included in this index are not disclosed by Cambridge Associates, and therefore cannot be independently verified); 3. Heterogeneity (not all secondary funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and 4. Limited data (many funds do not report to indices, and the index may omit funds, the inclusion of which might significantly affect the performance shown). The index does not represent the Fund's performance, and has not been selected to represent an appropriate benchmark to compare an investor's performance, but rather is provided to allow for comparison to that of certain well-known and widely recognized indices. Further, as Cambridge Associates recalculates the index each time a new fund is added, the historical performance of this index is not fixed, cannot be replicated, and differs over time from the data presented in this communication. See Cambridge Associates for a complete explanation on IRR calculations and assumptions. The investments within Pomona Investment Fund and the corresponding performance volatility thereof may differ significantly from the securities and or funds that comprise the Cambridge Index, which may contain strategies and asset types Pomona does not utilize. The Cambridge Index is not subject to any of the fees and expenses to which Pomona Investment Fund would be subject and no fund sponsored by Pomona Capital will attempt to replicate the performance of the Cambridge Index. Pomona does not pay any fees to Cambridge Associates to be ranked.

The **S&P 500 Index** measures the value of stocks of the 500 largest corporations by market capitalization listed on the New York Stock Exchange or Nasdaq Composite. Standard & Poor's intention is to have a price that provides a quick look at the stock market and economy. The composite performance of the S&P 500 is shown strictly for the purpose of comparison between the performance information contained herein and these popular public equity market indices. The S&P 500 is a widely recognized, unmanaged index of market activity based upon the aggregate performance of a selected portfolio of publicly traded common stocks.

The performance of the S&P 500 shown in this document reflects the reinvestment of dividends and other distributions. In addition, the S&P 500 shown in this document is not subject to any of the fees and expenses to which any Pomona-sponsored fund would be subject. The S&P 500 has been selected as a general indicator of market health despite the lack of similarity of its underlying components to Pomona-sponsored funds. The S&P 500 index is not subject to any of the fees and expenses to which any Pomona fund would be subject to; Pomona-sponsored funds will invest in other market investment vehicles and will not attempt to replicate the performance of the S&P 500.

Cambridge Associates LLC U.S. Private Equity: The index is a horizon calculation based on data compiled from 2,755 US private equity funds, including fully liquidated partnerships, formed between 1986 and 2023. The investments within a private equity fund and the corresponding performance volatility thereof may differ significantly from the securities that comprise the index, which may contain strategies and asset types a private equity fund does not utilize. The index is calculated on an annualized total return basis with dividends reinvested. The index has not been selected to represent an appropriate benchmark to compare an investor's performance, but rather is shown as a comparison to that of a well-known and widely recognized index. The index is not subject to any of the fees and expenses to which any private equity fund would be subject and no private equity fund will attempt to replicate the performance of the index.

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