

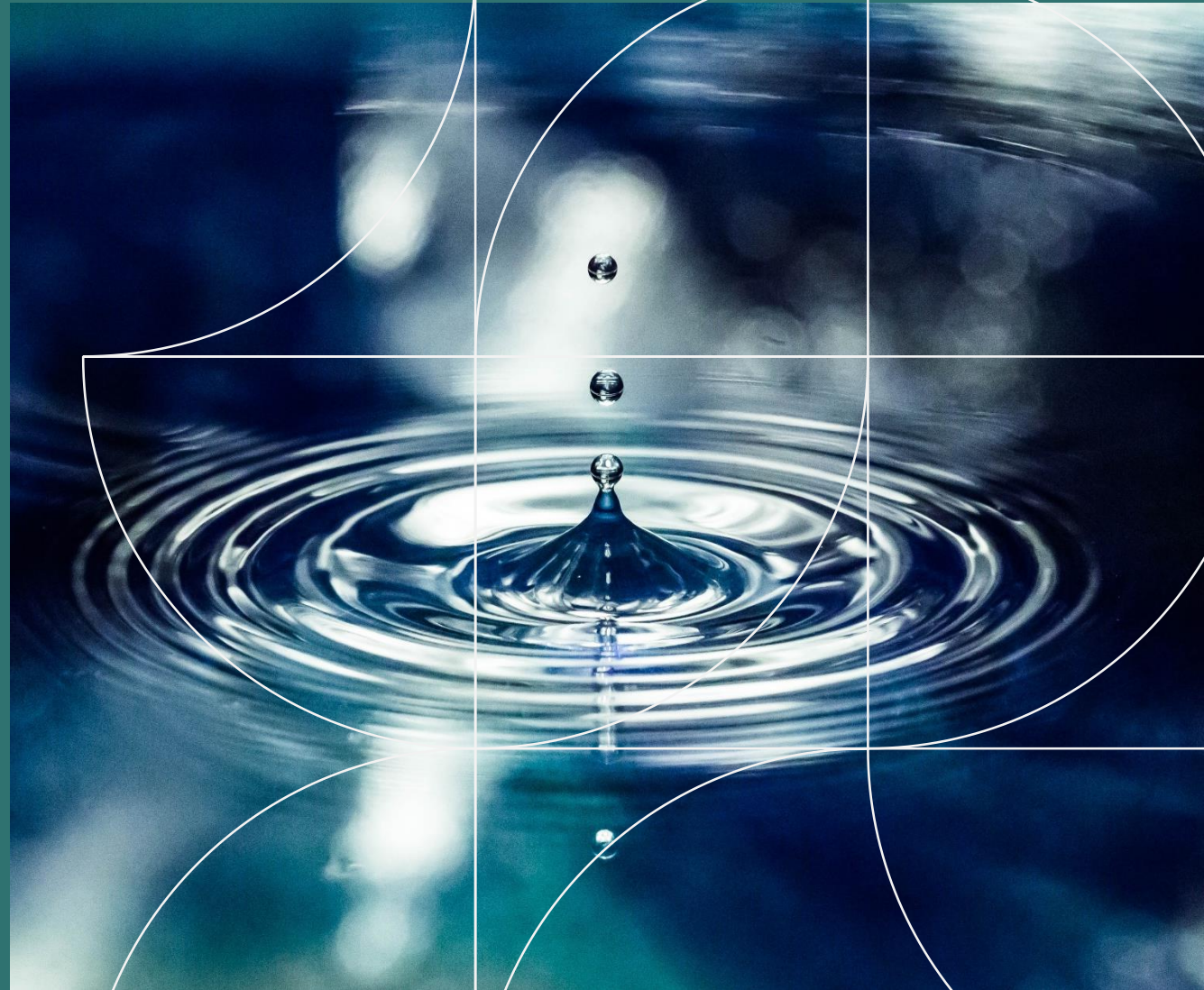


Institutional Investor Insights: Liquidity Strategies for Limited Partners (LPs)

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Seyfarth Shaw LLP

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Agenda

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- 2 | LP-led Secondaries
- 3 | Net Asset Value (NAV) Lending
- 4 | Collateralized Fund Obligations (CFOs)
- 5 | Where to Start
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Introduction to LP Liquidity Strategies

Why LPs seek liquidity:

- LPs have a range of reasons to consider and secure liquidity outside of a GP-led process.
- LPs may need to rebalance a portfolio to comply with policy guidelines or to adjust to macroeconomic conditions.
- LPs may consider a particular fund or vintage to be troubled or otherwise undesirable.
- LPs may require liquidity to fund future commitments in order to avoid losing allocations with sponsors or strategies.

Liquidity Strategies Available to LPs

LP-Led Secondaries

LP NAV Lending

**Collateralized Fund
Obligations**

LP-Led Secondaries

A selling LP sells their LP Interest in one or more funds to a buying LP (which may or may not be invested in the same fund(s)). The sale requires the buying LP to acquire the rights and obligations of the selling LP.

Why Does the LP-Led Secondary Persist?

For the selling-LP they secure the liquidity sought. The buying LP sees a number of benefits:

- **Discounted Entry Price:** Buyers can often acquire fund interests at a discount to net asset value (NAV), enhancing potential returns.
- **Visibility into Portfolio:** Unlike primary investments, secondaries are mid-stream, offering more transparency into the underlying portfolio companies and fund performance.
- **Shorter Hold Periods:** Since the fund is already partway through its lifecycle, buyers face a shorter holding period before distributions begin.
- **Diversification:** Buyers can quickly build diversified exposure across vintages, geographies, and strategies
- **Access:** LP allocations can be difficult to secure when dealing with brand-name sponsors. By acquiring LP interests on a secondary basis, smaller, less established LPs can access funds they would not be able to access on a primary basis.

LP Net Asset Value (NAV) Lending

LP NAV Lending in the context of LP liquidity strategies is similar in most respects to NAV lending at the fund level. LPs pledge an interest in the LP interest of one or more funds as collateral for a credit facility that provides the LP with liquidity.



Why Seek NAV Financing in Lieu of a Traditional LP-Led Secondary?

- LP NAV lending is an option when the sale of a single LP interest or family of LP interests may not be feasible.
- By securing a LP NAV facility in lieu of liquidating a LP interest, the LP retains its relationship with the Manager/Sponsor and demonstrates ongoing confidence in a particular strategy.
- The LP retains all the upside exposure in the particular fund or strategy.
- Unlike a secondary liquidation, the LP need not accept a discount to NAV.

Collateralized Fund Obligations

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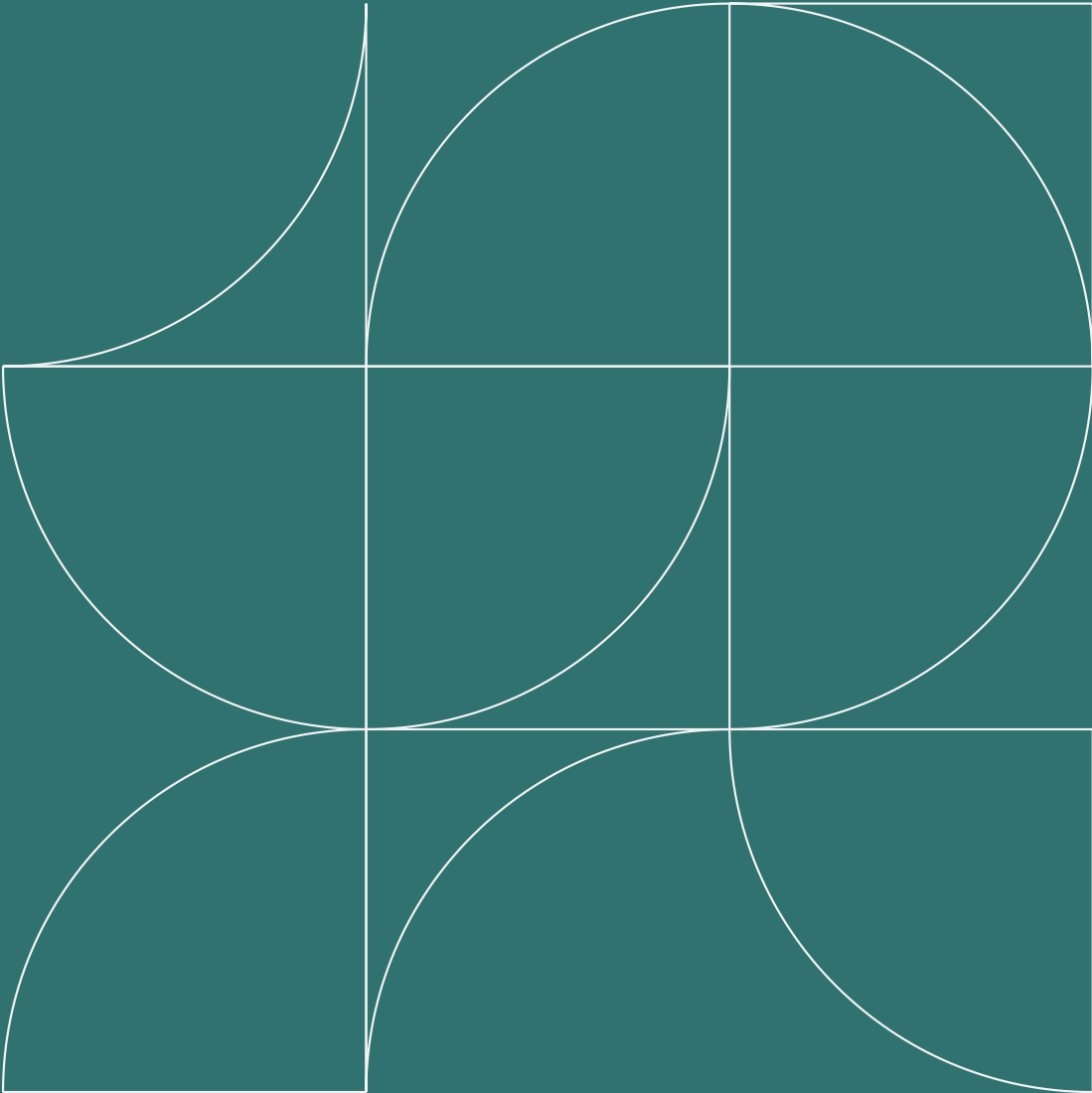
- Collateralized Fund Obligations (CFOs) feature many of the same benefits and features of LP NAV financing but provide the opportunity for bespoke engineering of the financial product to meet the needs of a LP seeking liquidity.
- Like collateralized debt obligations, a LP as a CFO issuer can issue tranches of notes collateralized by a package of LP interests and the associated cashflow to create liquidity.
- The LP may be able to achieve superior returns by engaging a diverse lending-base instead of a single LP NAV lender or commercial bank and as a result by reduce the effective cost of capital.
- Because the CFOs are on the commingled cashflows of individual LP interests, LPs can diversify the collateral base which across strategies, funds and vintages.

Where to Start

Where to Start

- LP liquidity solutions are all LP-led transactions so LPs are left to kick start the transaction process.
- For those LPs without an advisor to support the process, figuring out where to start can be challenging.
- In most capital markets transactions, starting with counsel is inefficient because other critical advisors must first determine the viability of a transaction, but in LP-led liquidity transactions, counsel is the first step in determining viability of any liquidity solution.
- Key Stakeholders:
 - Counsel
 - Accounting and Finance Support
 - Financial Advisors/Investment Bankers
 - GPs and Sponsors

Q&A





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