PitchBook

Monetizing GP Stakes

A review and analysis of the of GP stakes liquidity paths

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Key takeaways

- Liquidity has been a long-running concern for GP stakes investors, but single asset GP stake sales out of a portfolio are likely to provide some liquidity going forward. GP stakes firms have the option to sell a single stake to a strategic, another sponsor, in an M&A transaction, in an IPO, or back to management.

- Multi asset GP stakes deals are likely to be less frequent than single asset sales but preferred because of their speed in returning capital. A part or the whole portfolio may be sold to a strategic, another sponsor, or listed publicly. Smaller portfolios may have more sale optionality, but larger portfolios may be preferable for a public listing.

- Fund level financings, including dividend recaps and securitizations, may be used to bring forward distributions. Partial sales, such as strip sales and structured sales (as described in the text), may also be used to achieve interim liquidity while keeping the GP stakes firm in control over the GP relationships.

- The deep secondaries market may also provide monetization routes. LP-led deals have already occurred, and GP-led restructurings may be used for funds without a perpetual life.

- These monetization options should not be thought of in isolation. The likely outcome is that a GP stakes portfolio undergoes several liquidity routes during its tenure, meaning LPs should be familiar with all options.

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Introduction

GP stakes transactions are often considered to be and pitched as permanent capital, but liquidity is an important aspect. Even in cases where an LP desires permanent exposure to GP economics, a new Chief Investment Officer (CIO) may have different plans and seek liquidity for their GP stakes exposure, making monetization options critical. For funds, these options range from selling a single stake to exiting the entire portfolio. Some also involve transferring stake ownership to new owners (i.e., a sale to a strategic), while others effectively switch out LP ownership of fund assets, retaining the relationship between the GP staking manager and target GP. Monetizing these investments can also help the GP stakes fund achieve substantial performance fees on successful investments, thereby assisting with employee retention and future fundraising efforts. In this analysis of monetizing GP stakes investments, we dive into available liquidity paths—looking at historical examples, when possible—and assess each monetization option for GP stakes funds at the top end, in the middle market, and at the smaller end of the spectrum.

There are over a dozen viable exit strategies that GP stakes funds can pursue, and each may have several routes. For example, the exit of a single stake to a strategic could mean an exit to a family office, insurance company, corporate, or several other options. However, these dozen-plus options are not meant to be regarded individually. Instead, a portfolio is likely to experience several different types of liquidity events along the way. For example, a GP stakes fund may do a dividend recap, followed by selling off the stakes held by a credit manager and a real estate manager to separate family offices. The fund could then do two different strip sales before selling the remainder of the portfolio to a sovereign wealth fund (SWF). The possibilities and combinations are plentiful.

Overall, every portfolio size presents unique and compelling exit opportunities, though the middle market appears to offer the most favorable number of monetization routes. A middle-market GP stakes portfolio is large enough to take advantage of several portfolio financing options while being small enough to make both individual stakes and a portfolio of them enticing to the right buyer. We believe several currently hypothetical exit routes will become reality in the coming years, further enticing LP capital. Middle-market GP stakes firms are bound to sell to larger sponsors as Petershill, Blackstone, and Dyal have their pick of the remaining major GPs that have not sold a stake. These three GP staking firms are likely to source deals from middle-market target GPs within the next decade. Many variations of portfolio financings are also likely to go from theoretical to reality, and perhaps sooner than selling stakes to other sponsors. Several GP staking firms are currently looking into strip sales, structured sales, and securitizations. Once one GP figures out how to put all the pieces together, others will follow.

Holding periods

One of the initial questions typically asked about GP stakes investments is how long the relationships usually last. Some partnerships will last only a few years, while some may endure for two decades or more. In a sample of 20 historical single-stake sales, the average time to exit has ranged from eight to 11 years, with some stakes exiting in under one year and others after more than a decade. This number is expected to rise in the shorter term because several GP-staking relationships are ongoing. However, as the exit market deepens, the time to exit could shorten as many of those stakes are sold.

Markedly fewer stakes have been exited through portfolio sales than single-stake sales, and portfolios tend to exit slightly more quickly on an average basis. However, some of these portfolios comprised mostly hedge fund stakes and do not reflect the current focus of investing in closed-

Examples of single-asset GP stake sales

Target GP	Acquisition date	Buyer	Exit date	Holding time (years)
Blackstone	December 1988	Nikko Securities	July 1998	9.6
Warburg Pincus	February 1998	Credit Suisse	December 2004	6.8
Blackstone	July 1998	AIG	March 2012	13.7
Carlyle	February 2001	CalPERS	June 2013	12.3
Oak Hill Advisors	February 2005	iStar Financial	October 2011	6.7
Ares	May 2007	ADIA	April 2014	6.9
Blackstone	May 2007	CIC	March 2018	10.8
GSO	May 2007	Merrill Lynch	March 2008	0.8
Apollo	September 2007	CalPERS	April 2015*	7.6
Carlyle	September 2007	Mubadala	N/A	13.2
Apollo	November 2007	ADIA	April 2015*	7.4
Claren Road	April 2008	Petershill	December 2010	2.7
Aether	November 2008	Northern Lights	N/A	12.0
Apax	February 2009	GIC	N/A	11.8
Apax	February 2009	Future Fund	N/A	11.8
Apax	February 2010	CIC	N/A	10.8
Lexington	July 2010	Florida SBA	N/A	10.3
TPG	April 2011	GIC	N/A	9.6
TPG	April 2011	KIA	N/A	9.6
Ares	July 2013	Alleghany	Q2 2019	5.8
			Median	9.6
			Average	9.0
			75th percentile	11.8
			25th percentile	6.9

Source: PitchBook
*As of November 31, 2020
*While CalPERS and ADIA sold a quarter of their Apollo shares in May 2013, the two entities had two more lock-up periods between then and March 2017 when they could liquidate their entire holdings. We took the halfway point of the first and last transaction dates for this exit calculation.

end managers. Petershill I and Dyal I had nine and 15 years, respectively, between their vintage years and portfolio exits. This timeframe is reasonable for some of the current middle market and small funds that GP staking firms are targeting, but not for funds at the top end since they are structured as perpetual vehicles. We believe single-asset and portfolio exits will tend to cluster around the eight-to-12-year mark.

Examples of multiasset GP stake sales

Vintage	Firm	Liquidity year	Holding time (years)
1980	United Asset Managers	1987*	7
1993	Affiliated Managers Group	1997	4
2003	Asset Management Finance	2008	5
2007	Petershill	2016	9
2010	Dyal	2025**	15
		Average	8
		Median	7

Source: PitchBook
*UAM went public in 1987 but the portfolio was sold to Old Mutual in 2000.
**In 2020, Dyal agreed to sell a portfolio of five hedge fund stakes to Navigator Holdings in a two-part transaction. At closing, Navigator is entitled to the first $17.0 million of cash distributions annually plus 20% of the cash above that mark. Following 2025, Dyal will sell the remainder of the portfolio to Navigator. We use the 2025 date for liquidity here.

Single-asset liquidity paths

Many of the previous GP stakes liquidity events have been single-asset exits, either through an outright sale or IPO. While many GP staking firms are now more focused on portfolio-level monetization options, single-asset exits are likely to remain a key pillar in achieving complete portfolio liquidity.

Sale to a strategic

One of the most likely routes for single-stake exits is a sale to a strategic buyer. Strategic buyers run the gamut, and we have broken the buyer types into six categories: family offices, insurance companies, SWFs, pensions, corporates—which are typically large financial institutions—and LP-backed GP stakes firms. Within these types of buyers, we can categorize the vast majority of deals as those in which the buyers intend to commit heavily to the GP's future funds and own an economic stake in the GP's underlying business to align interests. Sources say several strategic GP stakes transactions are in progress to either family offices or SWFs, and many more have already taken place but have never been made public because of the elusive nature of many family offices and SWFs. While the semantics may change with each situation, the underlying rationale is the same. For example, an insurance company may take a stake in a credit manager it plans on using to help offset its liabilities, whereas a financial institution may take a stake in a PE firm it plans on incorporating into a proprietary affiliate network that services the institution's wealth management arm.[1]

Many of the stake sales to strategics predate the explosion in GP stakes over the past few years. Today, specialized staking firms are closing the bulk of the staking transactions, and strategics have become less of a factor. However, strategics do still vie for GP stakes deals because the economic rationale remains, especially for institutions directly allocating their own funds to these GPs. Although deals by corporates, pensions, and insurance companies have waned in recent years, activity by insurance companies is showing signs of life. Manulife recently took a significant minority stake in Albamen Capital Partners, a newly formed digital infrastructure and renewable energy-focused manager. Manulife IM claims to be looking at similar deals in a China-based PE and/or credit firm. The long duration of GP stakes cash flows and co-investment opportunities make this attractive for insurance companies.

In addition to insurance companies, GP staking deal activity among family offices, SWFs, and LP-backed GP stakes firms has ramped up. The two GP stakes firms that are directly backed by strategic LPs—Capital Constellation and Azimut Alternative Capital Partners—are expected to be active acquirers in the coming years and could do primary or secondary deals.[2] We classify these buyers as strategic because the primary goal is not just financial gain since they are not investing out of a traditional fund structure, and they intend on investing capital into the funds of the managers in which they take stakes.

1: A proprietary affiliate network is a group of third-party asset managers that a wealth management firm or multifamily office may use to service client needs. For example, Azimut is buying stakes in private capital managers with Azimut Alternative Capital Partners (AACP) and then Azimut plans to funnel some of the RIA capital to funds managed by the GPs in which AACP bought stakes.
2: Although both are "LP-backed firms," Capital Constellation and AACP have very different corporate structures. Capital Constellation is a joint venture between five massive institutional investors and could add more partners while AACP is a subsidiary of Azimut Group.

Examples of primary GP stake sales to strategic buyers

Strategic buyer type	Target firm	GP stakes buyer	Date
Family office	Nordic Capital	RDV Corp/OAPC	September 2019
	Cortec Group	RDV Corp/OAPC	2018
	AEA Investors	RDV Corp/OAPC	January 2018
	Levine Leichtman	RDV Corp/OAPC	Unknown
	Riverside Company	Parkwood LLC	April 2017
Insurance	Pretium	American Equity Life Insurance	October 2020
	Capza	AXA	October 2015
	TPG	China Life Insurance	August 2014
	Ares	Alleghany	July 2013
	Blackstone	AIG	July 1998
SWF	Silver Lake	Mubadala	September 2020
	TSG Consumer	Wafra	March 2017
	CVC	KIA, GIC	September 2012
	Apax	GIC	February 2009
	Blackstone	China Investment Corporation	May 2007
Pension	Providence	Florida State Board of Administration	September 2012
	Bridgewater Associates	Teacher Retirement System of Texas	February 2012
	Lexington	Florida State Board of Administration	July 2010
	Silver Lake	CalPERS	January 2008
	Apollo	CalPERS	November 2007
Corporate	NREP	Novo holdings	May 2020
	CIM Group	Mitsui & co.	February 2017
	GSO	Merrill Lynch	May 2007
	Oak Hill Advisors	iStar Financial	April 2005
	Warburg Pincus	Credit Suisse	July 1999
LP-backed GP stakes firms	Kennedy Lewis	Azimut Alternative Capital Partners	July 2020
	Pollen Street Capital	Capital Constellation	April 2020
	Motive Partners	Capital Constellation	October 2018
	Ara Partners	Capital Constellation	July 2018
	Astra Capital	Capital Constellation	February 2018

Source: PitchBook

Strategics have largely closed primary GP staking deals but have increasingly pursued secondaries as of late, proving they are viable buyers of stakes from GP stakes funds. However, different types of strategics may prefer differently sized GP stakes. Additionally, top-end GPs, where stakes are often worth north of $500 million, may struggle to sell stakes to strategics outside of special situations because the buyer pool at the top end is so constrained. GPs at the top end are likely to sell stakes to SWFs or organizations backed by them—such as Mubadala, GIC, ADIA, and Wafra—or to large corporate asset managers looking to build out their alternatives offerings. This played out with Wafra buying a stake in Oak Hill Advisors from General Atlantic in February 2018 and Mubadala buying half of Dyal’s stake in Silver Lake in October 2020 after Silver Lake and Mubadala struck a special arrangement. On the corporate side, asset managers including Franklin Resources and BlackRock could be buyers if they sought to quickly build out an alternatives offering. We believe middle-market and small GP staking firms may also exit their stakes to SWFs and corporates but could also find success selling them to family offices hoping to establish a strategic partnership with a few GPs and with insurance companies hoping to do the same. Because there are far more potential buyers of stakes in middle-market and small GPs, the smaller targets may find sales to strategics a slightly easier task.

Examples of secondary GP stake sales to strategic buyers

Target firm	GP stakes buyer	GP stake seller	Date
Oak Hill Advisors	General Atlantic	iStar Financial	October 2011
Oak Hill Advisors	Wafra	General Atlantic	February 2018
Silver Lake	Mubadala	Dyal	August 2020

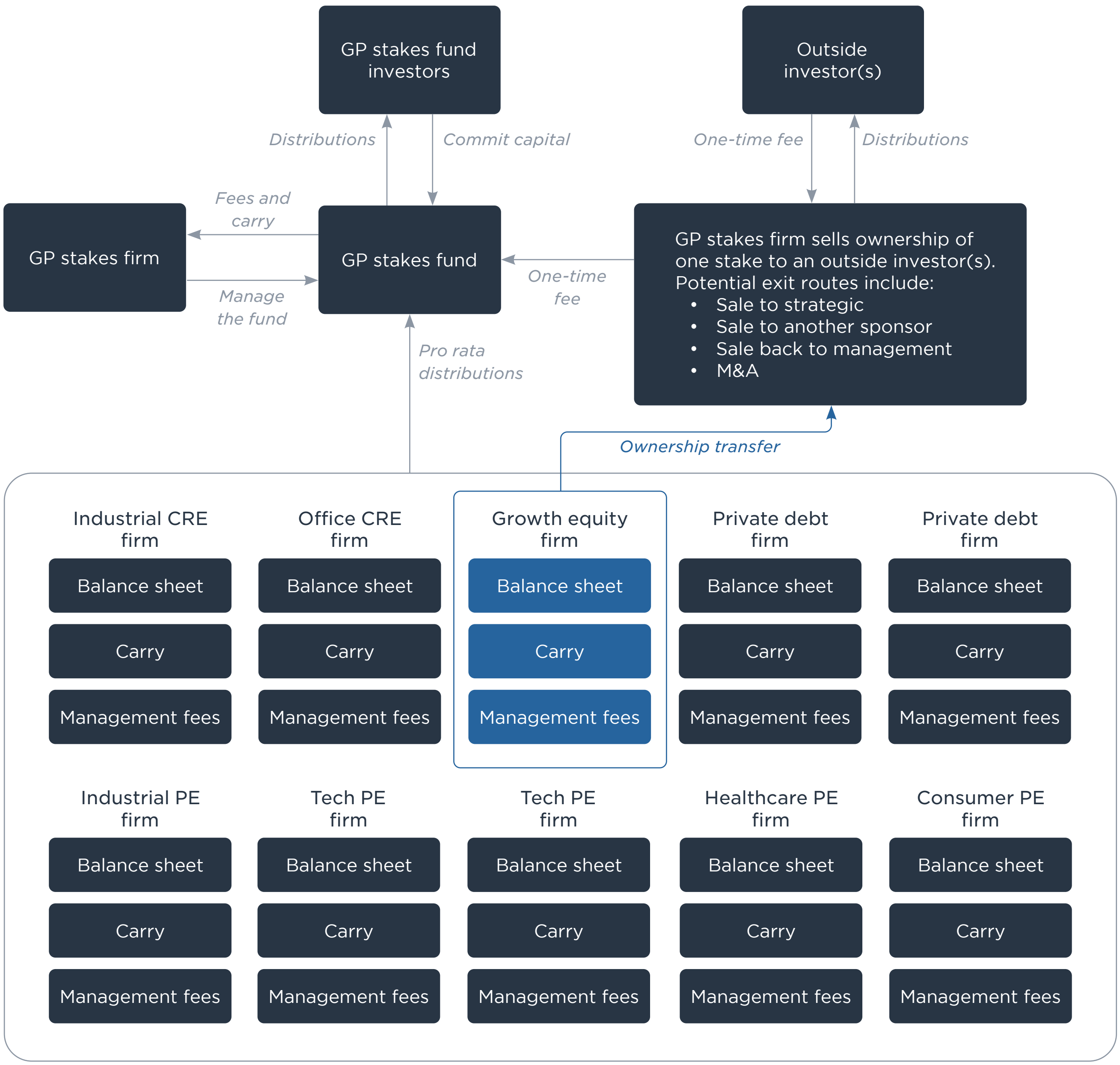
Source: PitchBook

Sale to a sponsor

Although sponsors have completed dozens of primary GP stakes deals, secondary deals have been rarer. However, as the set of available GP targets at the top-end shrinks, Dyal, Petershill, and Blackstone will likely begin looking to middle-market GP staking firm portfolios for deal sourcing opportunities. Similarly, we expect GP staking firms targeting middle-market GPs to source some deals from firms focused on smaller GPs—though a lower percentage than the top-end GP staking firms will source from mid-market GP stakes firms. Sources at top end and middle market GP staking firms confirm that they are open to the idea, though some seem more bullish on it than others. These deals are expected to become popular in the coming years as the narrative around sourcing deals from other managers shifts, just as sourcing buyouts from other PE shops has. In many of these cases, the larger GP staking firm may buy the secondary equity and attach primary capital to the deal as well. These deals will highlight the importance of previously negotiated deal terms and rights because in some cases deal terms are not transferable and need to be renegotiated with the target GP. Some GP staking investors that achieved lower headline deal prices by conceding on these terms and rights will struggle to realize the value intended for these stakes in that case.

In general, secondaries sales to sponsors will most likely come from middle-market GP stakes firms that are exiting investments to top-end GP stakes firms. This is positive for the middle-market firms because selling to a larger sponsor is one of the primary means by which they hope to achieve an exit. There are several reasons for this, the first of which is that top-end managers have promised their LPs that they will stick to their core strategy, investing in the largest firms. It does not make sense for Dyal to buy $100.0 million stakes out of a $9.0 billion fund, for example. This would constitute style creep and likely alter the fund's risk profile. Furthermore, sources at

Illustrative example of a single-stake sale



top-end GP stakes firms say these firms enjoy their current spots atop the industry and have no intention of raising a smaller middle-market fund, where there may be more competition and less fee and carry income to earn on a smaller fund size.

Top-end GP stakes firms have already proven they are willing to buy secondaries stakes. Dyal purchased a minority stake in RXR Realty from Colony Capital in February 2020. However, this is a unique case because RXR's initial minority investor, Almanac Realty, was purchased by Dyal parent, Neuberger Berman, at the same time. However, sources say the stake went through the traditional "bake off" auction process, meaning Dyal was not afforded special treatment. This is not to say that Dyal, Petershill, and Blackstone will not be able to sell their stakes to each other if they choose to do so, but this is unlikely and might only happen out of earlier, smaller funds. For example, Dyal I invested in Providence Equity Partners and still holds that stake as of this writing. It is conceivable that Dyal could sell this stake to either a recent fund of its own, or to Blackstone or Petershill's freshly raised funds.

We believe that GP staking firms focused on the middle market have the best chances of selling stakes to larger sponsors, but both those firms and others targeting small GPs have the advantage of being able to sell into the dry powder above them. Middle-market GP stakes firms may also be willing to buy stakes from smaller players, though given the abundance of GPs without any backing in the middle market, it is likely to be rarer. However, sources at multiple middle-market GP stakes firms confirm their willingness to buy stakes from smaller players sometime down the line, if a primary component is involved.

Sale through M&A

M&A activity for those looking to acquire private capital managers has been stable but notably less active than in other areas within asset management because a rush into private markets has kept fee revenues elevated. However, as the industry continues to mature and the pace of AUM growth diminishes, M&A activity may pick up. This is occurring with public market managers, which are seeing several rounds of consolidation as fees remain under pressure. M&A activity within private markets has typically been confined to the largest managers acquiring a smaller firm to build out its offerings. This was illustrated with Blackstone's 2018 acquisition of Clarus Ventures, which has now become Blackstone Life Sciences. After raising a $910.0 million fund in 2017 under the Clarus banner, the rebranded Blackstone group closed on $4.6 billion in 2020. We expect that as the largest private market firms seek to add sector-specific expertise and build out teams, some may choose to expedite the process through M&A of established middle-market or smaller GPs.

At least one GP stakes investment has exited a fund through strategic M&A. Claren Road Asset Management, a hedge fund that had sold a stake to Petershill, saw a majority stake sold to The Carlyle Group—a transaction in which backers Petershill and Citigroup exited. Due to size constraints, it will be less likely for the big three GP staking firms to exit GP stakes positions through M&A going forward. When 10% to 15% positions can run north of $500 million, majority stakes in these businesses are likely to be valued at several billion dollars. At this size, only a handful of buyers around the world exist, though as Brookfield's $4.7 billion acquisition of Oaktree illustrates, these deals are still possible. And although Blackstone, BlackRock, Brookfield, KKR, or a few others could buy a majority share in a larger GP, most of the exits through M&A will be from middle-market-focused and small GP stakes managers.

Examples of strategic M&A transactions

Sold firm	Buyer	Date	Purchase price ($M)	% Acquired
Crescent Capital	Sun Life	October 2020	$338	51%
GSO	Blackstone	March 2008	$930	Unknown
Clarus	Blackstone	November 2018	Unknown	Unknown
Antares	CPPIB	August 2015	$12,000	100%
Fortress	SoftBank	December 2017	$3,300	100%
Oaktree	Brookfield	September 2019	$4,800	62%
Northleaf Capital*	Power Corp	September 2020	Unknown	49.9%
Claren Road	Carlyle	December 2010	Unknown	55%

Source: PitchBook
*While this transaction was for 49% voting interest, Power Corp acquired a 70% economic interest, making this an M&A transaction for this context.

Sale to management

Some GP stakes investments are pitched as a succession planning tool, helping the retiring founder(s) achieve liquidity as they step aside and then bridging the generational gap before selling the equity back to the managing partners a decade or so later. Other times, the managing partner(s) that sold a stake can compound their capital more quickly than the equity stake and choose to buy back the GP stake in the future. In either case, management buys back the minority stake. In fact, this exact scenario has played out in a few high-profile cases, including with Blackstone, Warburg Pincus, and Silver Lake. For example, after Credit Suisse purchased a 19.9% stake in Warburg Pincus in July 1999, the firm sold the equity stake back to Warburg Pincus in January 2005. Each of these deals occurred when the three GPs had much lower valuations than they currently do, however.

Top-end GP stakes are likely too large to be sold back to management, but smaller GP minority stakes may see this as a viable exit route. Sources say Investcorp Strategic Capital Partners, a GP staking firm targeting middle-market GPs, plans to sell a significant share of its future stakes back to management later on, depending on the market environment. GP staking firms targeting even smaller firms, such as Capital Constellation or Volunteer Park Capital—where deal sizes may be $25 million to $75 million—may see an even higher proportion of their stakes sold back to management.

Exit through public listing

Individual stakes could also see a liquidity event from a public listing—either an IPO or reverse merger with a SPAC—though this route will be infrequent. In the past decade, less than one GP has gone public per year. Many of the largest PE firms bemoan the difficulties of being publicly traded, including increased transparency and reporting costs. Furthermore, this route is only a realistic option for top-end GPs, with more than $30 billion in AUM. We do not foresee any middle-market or small GPs going public in the coming years. Although there are increased reporting costs when a GP goes public, the valuation is significantly higher than what can be achieved in private markets when an organization has sufficient scale (i.e., has more than $30 billion in AUM or manages several strategies). The necessary diversification across strategy, geography, and vintages to make public market valuations and a public listing attractive to several of the largest firms, such as Vista Equity or Sixth Street. Capturing the valuation delta between public and private markets means a public listing of an individual GP could create significant value for the GP stakes portfolio.

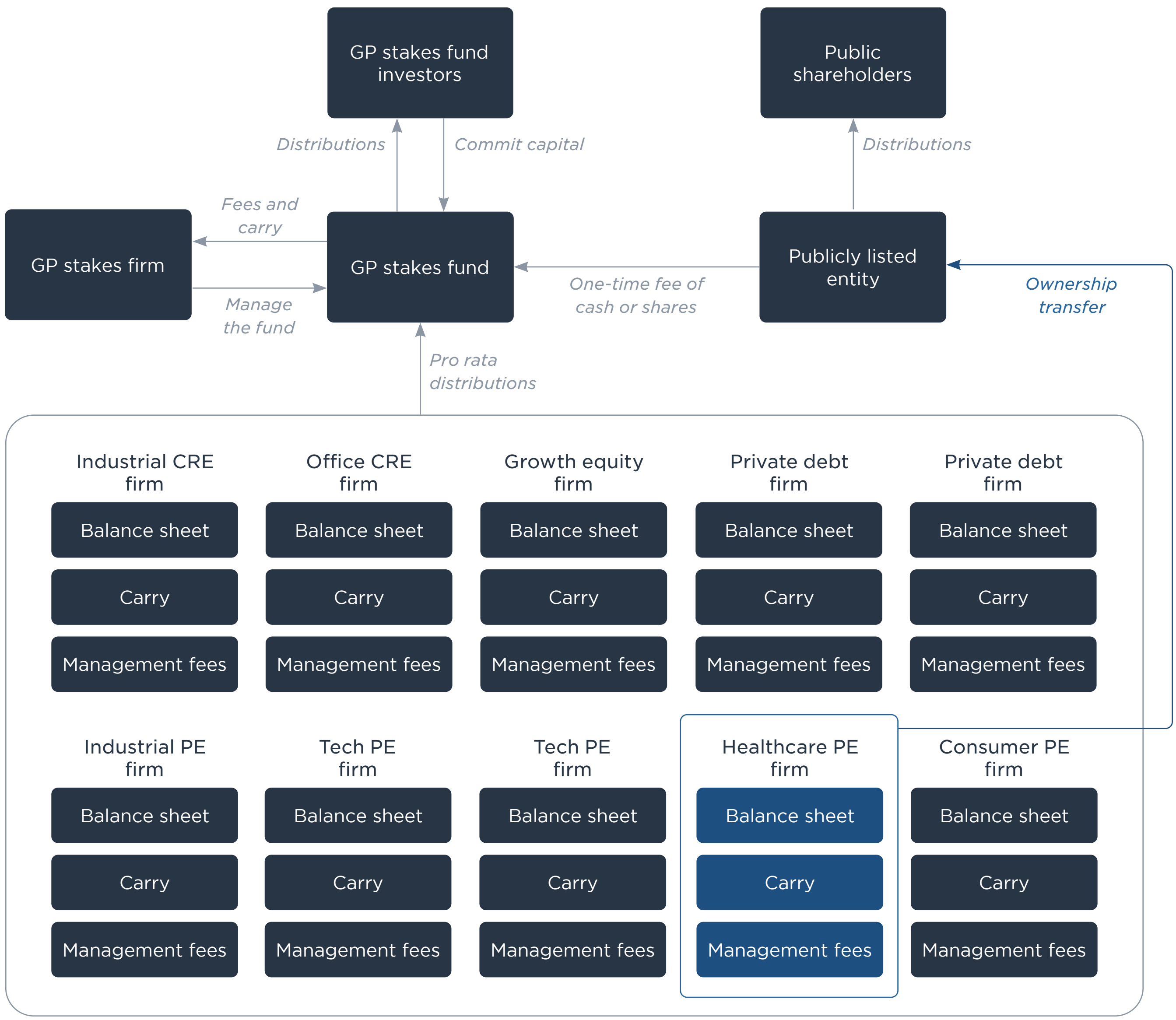
Select public GPs

Firm	IPO date
Dyal/Owl Rock	December 2020 (announced; not yet closed)
Step stone	September 2020
EQT	September 2019
Ares	May 2014
Carlyle Group	May 2012
Oak Tree	April 2012
KKR	July 2010
Apollo	March 2011
Blackstone	June 2007
Partner's Group	March 2006
Hg	March 1999
Eurazeo	March 1999
Brookfield	August 1997
i3	July 1994
Intermediate Capital Group	May 1994
Onex	April 1987

Source: PitchBook

EQT, a Stockholm-based PE firm that recently went public, has achieved an attractive valuation in public markets, which made some believe the market would see another wave of IPOs as it did in the late 2000s and early 2010s. The firm currently has an equity market cap of $21.3 billion with about €46 billion (~$56 billion) in AUM across its PE, infrastructure, and real estate strategies. Public market investors' amenable reaction to EQT's stock has caused other managers to look at a public listing for the first time ever. Furthermore, the recently announced Dyal and Owl Rock combination, which will be taken public via a double reverse merger with a SPAC, has added fuel to this fire. The rise of SPACs could lead to an uptick in GPs choosing to go public via reverse merger given these entities tend to be less price sensitive—because of the benefit of founder shares—which could help private capital firms achieve a higher valuation than they would in an IPO. There have been very few asset-manager-focused SPACs, despite GCM Grosvenor going public via a SPAC and there being a healthy demand for financing from large GPs. A SPAC that raises between $200 million and $400 million—and that has an equal-sized PIPE available—could be an attractive public route for a GP either backed by a top-end GP stakes fund or seeking financing. Since SPACs tend to take a 20% stake, approximately what many GP staking firms target, a SPAC could target a GP valued between $2 billion and $4 billion. However, the firm value could be as high as $15 billion as the Dyal-Owl Rock deal proves. Dyal and Owl Rock's public listing may entice some of Dyal's portfolio companies to also pursue this option down the road, meaning there may be several more GPs that go public with the help of a SPAC in the coming years. While most GPs will seek private financing instead, especially managers with under $30 billion in AUM, we believe several of the largest firms may choose to go public if Dyal-Owl Rock's valuation is as lucrative as EQT's.

Illustrative example of a single-stake IPO



Multiasset liquidity paths

Exiting a portfolio of assets, through a sale or public listing, is a particularly attractive option for GP staking firms. This allows LPs to achieve liquidity on a larger scale, and can take any number of forms, from just two or three stakes, to the entire portfolio.

Portfolio sale

The high-yielding, diversified cash flow stream that a mature GP stakes fund exhibits has attractive characteristics for several types of buyers. Recent portfolio sales, such as Petershill I and Dyal I's portfolio sales, indicate what furture processes could resemble, although these were both sales of hedge fund stakes. Petershill's sale comprised all remaining fund holdings, while the Dyal fund still has two positions remaining after the sale. Both instances were sales of some but not all the original portfolio stakes to a publicly traded corporate buyer. These sales were also out of funds that were initially smaller than $1.5 billion. With the current funds being raised by Blackstone, Petershill, and Dyal amassing at least $4.0 billion, a portfolio sale to the same extent is less likely. However, an asset manager could buy two-to-four stakes in a smaller portfolio sale. Some buyers, such as GIC or ADIA, have the sophistication and financial firepower to take down several minority interests from a multibillion-dollar GP stakes fund.

Middle-market and small GP stakes funds have a much greater likelihood of selling a portfolio of stakes because the acquisition cost is lower, opening the door to far more potential buyers. Not only are there dozens more SWFs that could take down a $2.5 billion portfolio (i.e., a 2.5x gross MOIC on a $1.0 billion fund) compared to a $10.0 billion portfolio (i.e., a 2.5x gross MOIC on a $4.0 billion fund), but many more insurance companies and asset managers as well. A large wealth management firm could speed up its process of building out an affiliate network of private markets GPs in one middle-market portfolio acquisition, for example.

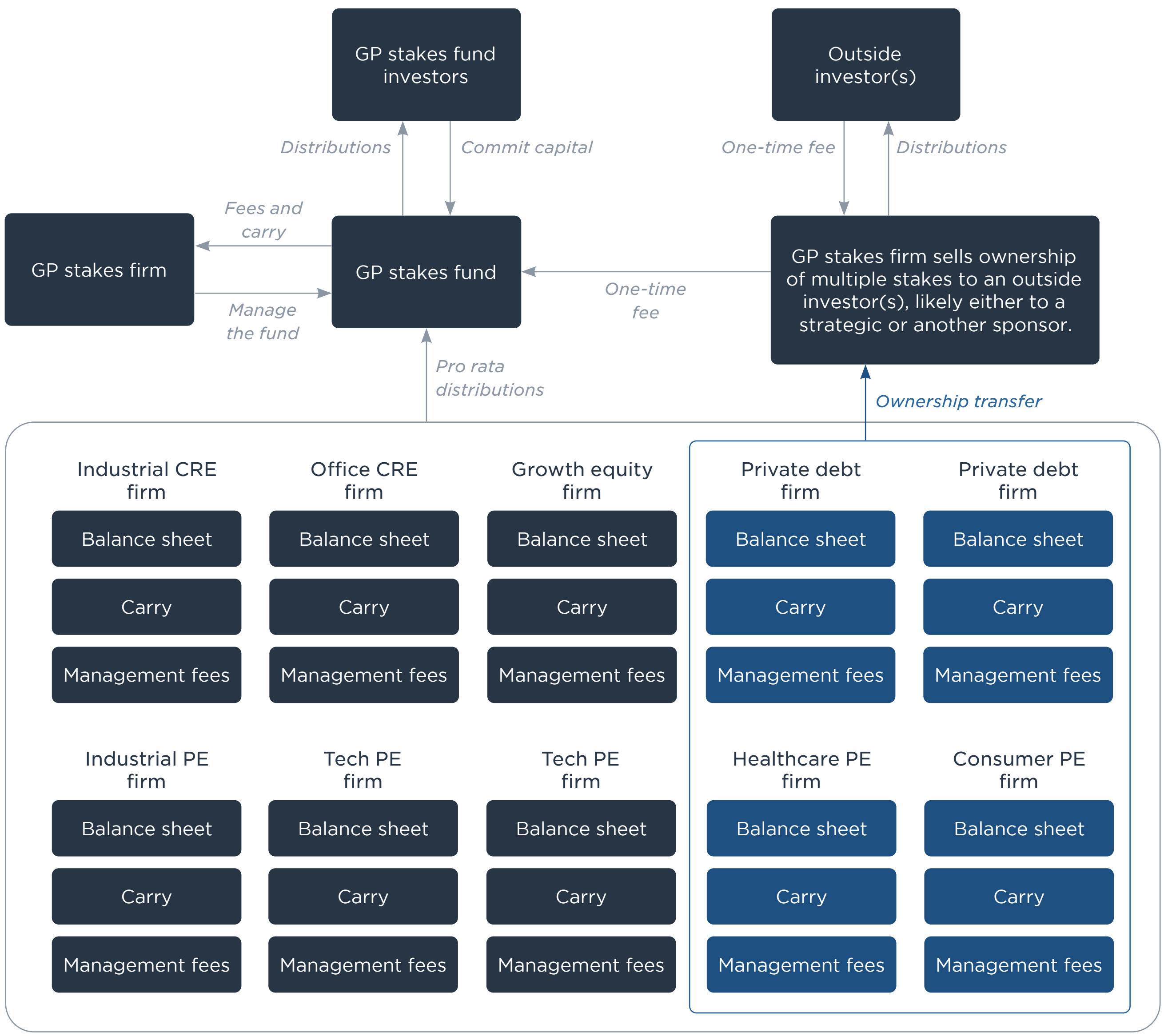
Examples of portfolio sales

Seller	Buyer	Description
Petershill I	AMG	Petershill I, a $589.0 million 2007 vintage GP stakes fund, sold the fund's five remaining stakes to AMG for up to $835.0 million in June 2016. According to Bloomberg reports, the portfolio realization produced a gross MOIC of approximately 2.5x while producing a 16.3% annual cash yield. This exit event helped prove to LPs that these investments could be exited at attractive valuations and predated the current GP stakes fundraising boom.
Dyal I	Navigator Holdings	Dyal Partners I, a $1.3 billion 2012 vintage GP stakes fund, agreed to sell six hedge fund stakes to Navigator Holdings in August 2020. The two-part transaction will close at year-end 2020 and then 2025 and see Navagator issue a 40% economic interest to Dyal I in the form of ordinary shares and convertible notes. Following the deal, Dyal I has two remaining stakes, Providence Equity Partners and Jana.
Asset Management Finance	Credit Suisse	AMF was started in 2003 to provide funding to hedge funds and asset managers by acquiring minority equity or revenue share agreements. Credit Suisse bought an 80% stake in AMF, which had completed 12 minority staking transactions, from Canada's National Bank Financial for $384.0 million in newly issued shares in August 2008. Credit Suisse then shut down AMF in 2013.
United Asset Management	Old Mutual (after IPO)	United Asset Management was created in 1980 as a holding company for revenue interests in high growth asset managers. UAM eventually acquired interests in more than three dozen asset managers. The company was listed on the NYSE in 1987 but moved its listing to London in 1999. UAM and was later acquired by insurance and financial services company, Old Mutual, in 2000 for $1.46 billion.

Source: PitchBook

In fact, given the size discrepancies between GP stakes funds targeting the top end versus the middle market, the latter could conceivably sell some or all of its portfolio to a larger sponsor, depending on sizing. For example, Dyal recently raised a $9.0 billion fund and is likely to raise even more with its current offering. This is mammoth compared to Bonaccord or Stonyrock, which are seeking $1.0 billion funds. Even if one of these firms achieved a 2.5x gross MOIC and sold the whole portfolio to Dyal,[3] it would represent just over a quarter of the fund's available capital. With Blackstone and Petershill seeking $4.0 billion funds, it is less likely they would buy an entire middle-market GP stakes portfolio, but they could feasibly source a handful of GP stakes from one or two middle-market funds if the opportunity presented itself. Similarly, a middle-market firm's $1.0 billion-plus fund

Illustrative example of a portfolio sale



3: For reference, Petershill I achieved a ~2.5x gross MOIC when it sold a portfolio to AMG.

could buy several assets from a smaller GP staking fund such as Volunteer Park Capital, which is raising a $200.0 million fund. However, the middle market is less deal constrained than the top end, at least for now, so the likelihood of a portfolio sale from a small GP stakes fund to a middle-market fund may be a slightly more difficult sell.

Publicly listing a portfolio

A public listing of a GP stakes portfolio has the potential to provide an attractive option for LPs, though many difficulties befall this monetization route. Receiving shares allows LPs to exit on their terms in a somewhat liquid market, and the allure of publicly listing a GP stakes portfolio means that all of the big three GP staking firms have looked at the option. Dyal's Michael Rees said that "the likely plan is to put it all together, get the benefit of scale and diversity, and list that," in October 2018 when talking about an exit play for an earlier Dyal fund, though the firm appears to have changed its mind since then. Opinions on the feasibility of a portfolio IPO vary widely, with sources at one top GP staking firm telling our analyst that this option is a preferred liquidity path while sources at another top GP staking firm see a portfolio IPO as untenable.

Publicly listing a portfolio of GP stakes can take two paths: listing as a closed-end fund, where the price is pegged to a NAV, or as an operating company (such as AMG), where they are a going concern. Due to regulations surrounding the Investment Company Act of 1940, a GP stake's fund composition likely meets the criteria to be deemed an investment security while also breaking the rules that come with that ruling, disqualifying the listing in the US. Europe's capital markets, notably the Amsterdam and London Stock Exchanges, provide an opportunity for a closed-end listing, though. London likely maintains an edge here for several reasons, and a Chapter 15 closed-end fund listing may be feasible. However, non-US exchanges provide an alternative but require the creation of a non-US entity to act as a conduit or access vehicle to the portfolio of GP stakes. This quickly becomes complicated because the listing not only requires the GP staking firm to list the fund on a non-US exchange using a non-US entity even though the GP staking firm and most of its LPs are likely US entities, but US persons also cannot freely transact in the ticker. It could compromise the work around. This requires a transfer agent to act as a gatekeeper and vet the sophistication of buyers, preventing buying by non-qualified purchasers. Closed-end funds are also often traded on a NAV basis, typically leading to undervaluation. All of this to say, listing as a closed-end fund is most likely not the best option.

Listing a GP stakes portfolio as an operating company, on the other hand, appears more lucrative. However, listing a GP stakes portfolio is something that must be planned for far in advance. Everything—from initial fund document language, to the specific wording used in each GP stakes deal, to even the fund size—needs to be carefully crafted if a firm wants to eventually list the fund as an operating company. AMG is an operating company rather than a closed-end fund and could set an example, but it went public before some newer SEC regulations, putting a US listing into question. Some are skeptical a US listing would be feasible today, which again leaves Europe—London in particular—as an option. The Chapter 6 premier listing on the LSE could allow a GP stakes fund to list, but a portfolio will have to overcome the challenge of demonstrating strategic control. GP stakes investments are almost by definition passive stakes, so demonstrating strategic control may prove difficult. However, if the GP staking firm had planned for it, it could include language that gives it strategic control in the individual deals, but this could result in a majorly diluted stake if the GP staking firm ever sought to assert any control over a firm. This way the fund passes the strategic-control test while ensuring the target GPs it will never be used. Lastly, there are questions around liquidity. To list on the LSE, the free float needs to constitute at least 25% of the company's shares. Given the average Chapter 6 listing IPO is in the $750 million to $2 billion range, this likely means that the portfolio IPO option is best suited for funds in the $2 billion to $8 billion range and that larger funds may be too large. Middle-market-focused or some top-end GP staking funds should be able to pursue the option, but Dyal's $9.0 billion fund may be too massive and GP staking firms focused on smaller GPs may not have the requisite size.

Portfolio IPO example

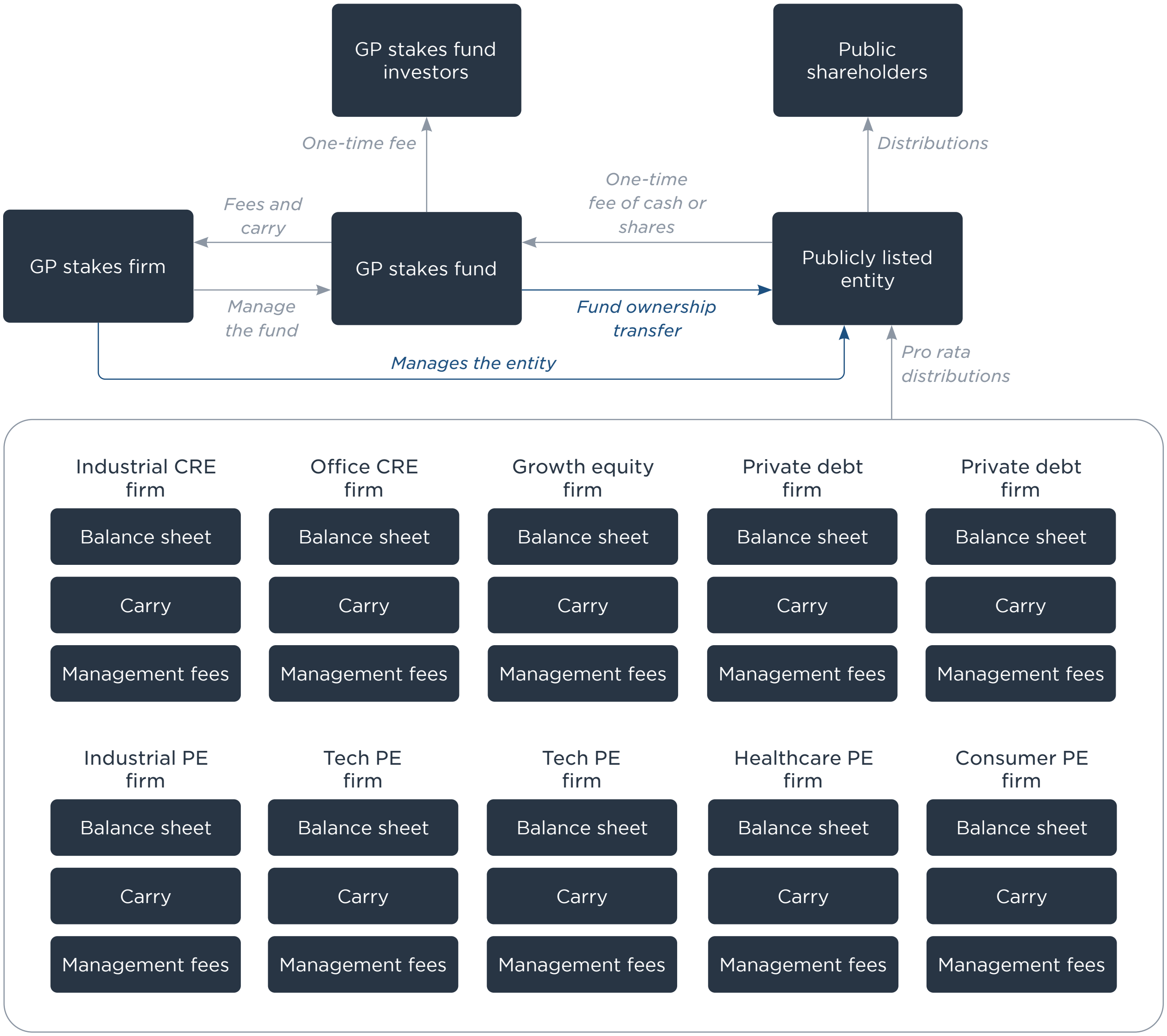
Firm	Description
Affiliated Managers Group	Affiliated Managers Group was formed in 1993 and pursues both minority and majority stakes in traditional asset managers, hedge funds, and private markets GPs. AMG went public on the NYSE in 1997 and has completed deals in over two dozen firms, including the purchase of five hedge fund stakes from Petershill I. AMG continues to fund its growth by gaining access to the equity and debt markets.

Source: PitchBook

The rise of SPACs may alter the portfolio IPO environment going forward, as mentioned in the single-stake public listing section. The SPAC and a PIPE will typically seek to acquire an approximately 20% to 30% stake in the target company. This means a $300 million to $500 million SPAC, backed by an equally massive PIPE, could be a liquidity option for a $2 billion to $5 billion GP stakes portfolio. Looking at the current crop of funds, Dyal II and Petershill II appear to fit this mold. While it may be a long shot, a GP stakes portfolio could choose to publicly list via a reverse merger with a SPAC if the portfolio is deemed not to run afoul of newer SEC regulations.

Publicly listing the portfolio may not even be the most difficult aspect. Valuation concerns also could lead GP staking firms to forgo a public listing. GP stakes deal terms disallow GP staking firms from presenting individual managers' financials, meaning all financials would have to be reported at the fund level, making predictions about the future even more difficult. For example, if Dyal III were to list publicly, the fund could not separate out the financials of Vista Equity Partners from H.I.G. from the remainder of the holdings. There are ways to provide some clarity, though. Through PitchBook, investors can see how activity across fundraising, dealmaking, and exits changes from quarter to quarter for specific GPs. Investors can even use our fund valuation model to project out fee and carry income given a range of inputs. Furthermore, company management can project out carry and management fee income, which may help assuage valuation concerns.

Illustrative example of a portfolio IPO



Fund financings and partial sales

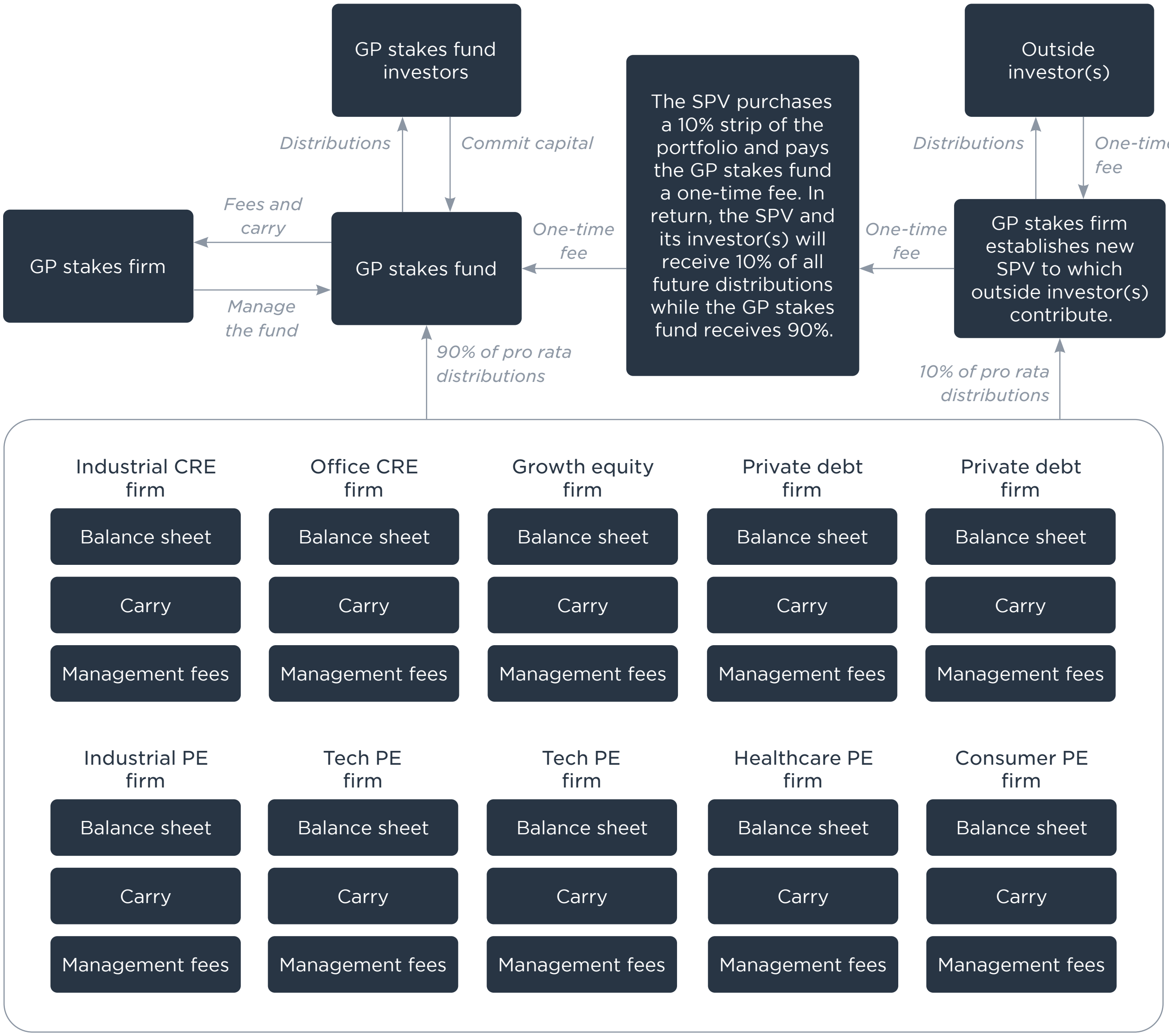
Fund-level financings and partial portfolio sales offer LPs an attractive proposition, typically by bringing forward cash payments while retaining upside. Since a GP stakes portfolio is a series of cash flows with a mid-teens dividend yield, some of the same financialization techniques used in other asset classes, such as mortgages and leveraged loans, can be applied to a GP stakes portfolio. There are abundant ways by which a GP stakes fund can structure fund financings and partial sales, and this segment hits on the major methods.

Strip sale

A strip sale, whereby the GP staking firm sells a pro rata piece of the portfolio's distributions to an outside investor, provides partial liquidity. A strip sale can take on many forms, but in this report, it is solely referring to pro rata sales of the portfolio's cash flows in this segment. An example of how a strip sale may work is that GP stakes Firm A sells a 15% stake in its fund to SWF B for some amount of money. The transaction would see each LP receive a distribution equal to 15% of the fund's NAV (or some other, higher value), while retaining an 85% share of the distributions going forward. SWF B would be buying into a proven portfolio and likely pay up for the growth that has ensued since the fund launch and the lack of blind-pool risk. Future fund distributions would see SWF B collect its 15% share and the fund's LPs collect their pro rata shares. Sometime later, GP stakes Firm A could sell a 9% strip to Insurance Company C, for example, and keep on selling strips until the LPs are fully cashed out. This option retains the relationship between the GP staking firm and target GP as it effectively just rearranges the ownership structure of the fund's LPs.

Sources at several GP staking firms top-end say this is a favorable option for their funds because it allows for gradual liquidity to LPs over a decade or longer, depending on the pace of deals. Dyal is reported to be looking into a strip sale out of its Dyal Capital Partners III fund, and other top-end firms are as well. The unique structuring would see Dyal LPs sell a minimum of 10% and a maximum of 20% of their fund holding. Potential buyers include secondaries firms, SWFs, and insurance companies. While only larger GP staking firms are known to be looking into this type of liquidity route, GP staking firms focused on middle-market and smaller GPs could just as easily pursue this option once their funds are fully deployed. The size can be varied, meaning a fund could sell a small strip to a local insurance company while selling a massive strip to an Ivy League endowment. We believe selling strips to the portfolio's cash flows will be a favored liquidity route for GP staking firms large and small.

Illustrative example of strip sale

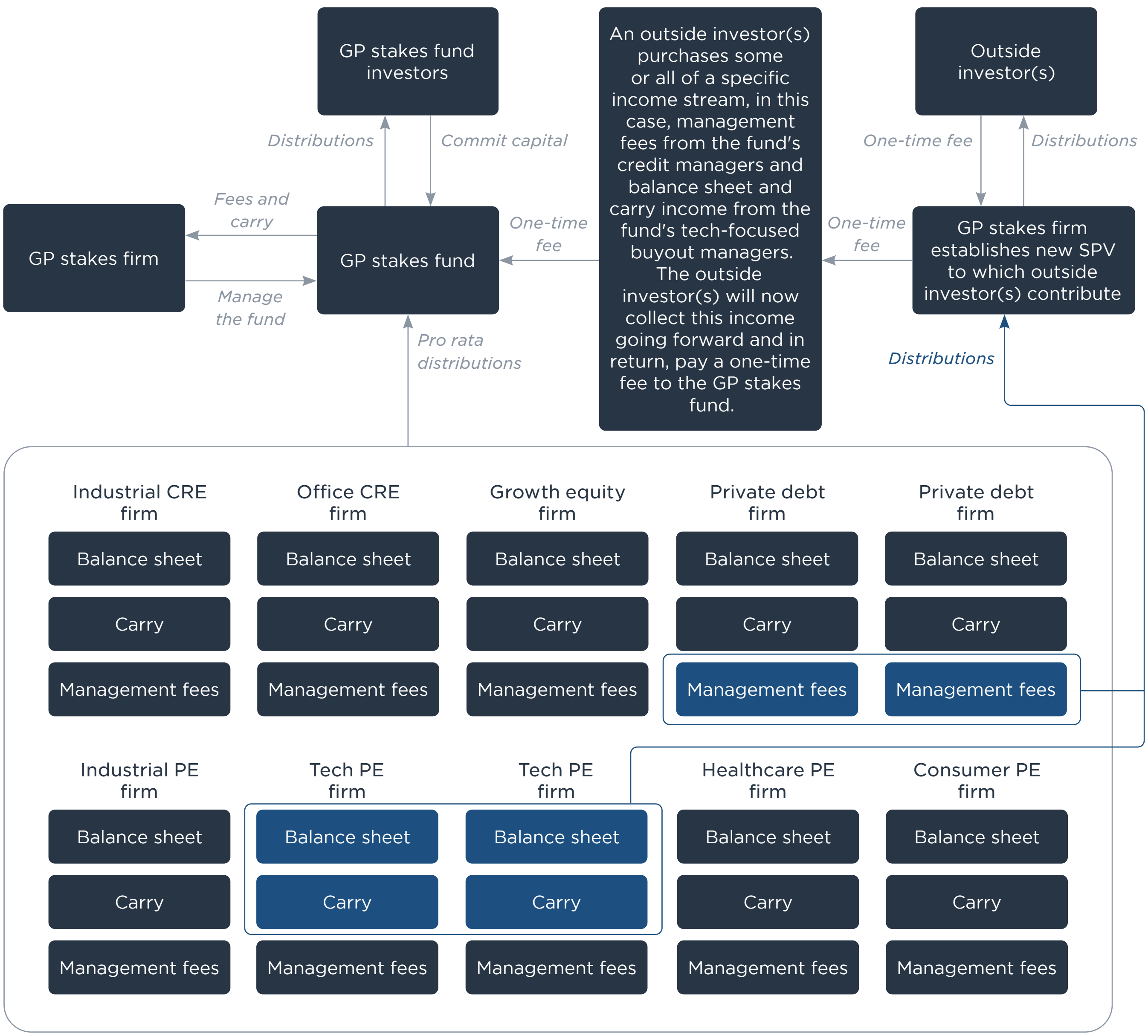


Structured sale

A structured sale, whereby the GP staking firm sells specific fee streams, is occasionally thought of as a type of strip sale. These highly bespoke transactions can take myriad forms, such as selling the carry income from the portfolio's growth equity GPs or the management fees from the portfolio's real estate firms. While any structured sales along these lines have not yet occurred, sources say GP staking firms focused on the top end are looking into dozens of ways to split up their funds' cash flows. Structured sales allow for an outside buyer to take a more tailored approach to acquiring parts of a GP stakes portfolio. Using the examples laid out, a large SWF may feel as though it is underallocated to real estate, and instead of committing capital to several closed-end real estate funds, the SWF could buy the future carry from a GP stakes portfolio that contains two real estate GPs. Theoretically, this SWF will value the cash flow stream more highly than the GP stakes fund could find using other exit options, allowing the GP to achieve the highest valuations upon exit. This monetization strategy seeks to sell the sum of the parts for more than the value of the whole through its deep customization.

We foresee this liquidity path being utilized in conjunction with others, such as a securitization. An illustrative example could see GP stakes Firm B securitize all a fund's management fee income and sell that security to a pension plan before structuring the portfolio's remaining carry and balance sheet income into strategy-focused segments and selling those off to individual buyers. The sales do not have to be for all the chosen revenue stream either. For example, a deal could be for half of the portfolio's tech-

Illustrative example of structured sale



focused buyout performance fees. The sizes of the portfolios and cash flows needed to pull off a structured sale means it is something best suited to GP staking firms focused on the top end, though select middle-market portfolios may qualify. We believe GP staking firms focused on small GPs will be precluded from pursuing this monetization strategy. Potential buyers would likely demand too high of a risk premium to compensate for their smaller, less institutionalized portfolio.

Dividend recap

Taking out a loan on a fully or mostly deployed GP stakes portfolio provides a way to bring forward future distributions. This is typically done to boost the fund's IRR, and the expense can cause a slight reduction in TVPI. Petershill II and Dyal III have both issued debt secured against the portfolio's cash flows and used the proceeds to fund a distribution to LPs. Petershill II's fund has a heavy weighting toward hedge fund stakes while Dyal III's portfolio comprises mostly PE firms. This makes the Dyal transaction more relevant because of the underlying composition of firms, and it likely foreshadows a healthy amount of activity to come. AMG also uses some debt on its balance sheet to keep a moderate leverage profile—about 2.5x trailing twelve months economic net income (TTM ENI)—indicating that the ideal capital structure for a portfolio of minority stakes may be modestly levered. Leverage beyond this may add to costs more quickly than to returns.

Examples of GP stakes dividend recaps

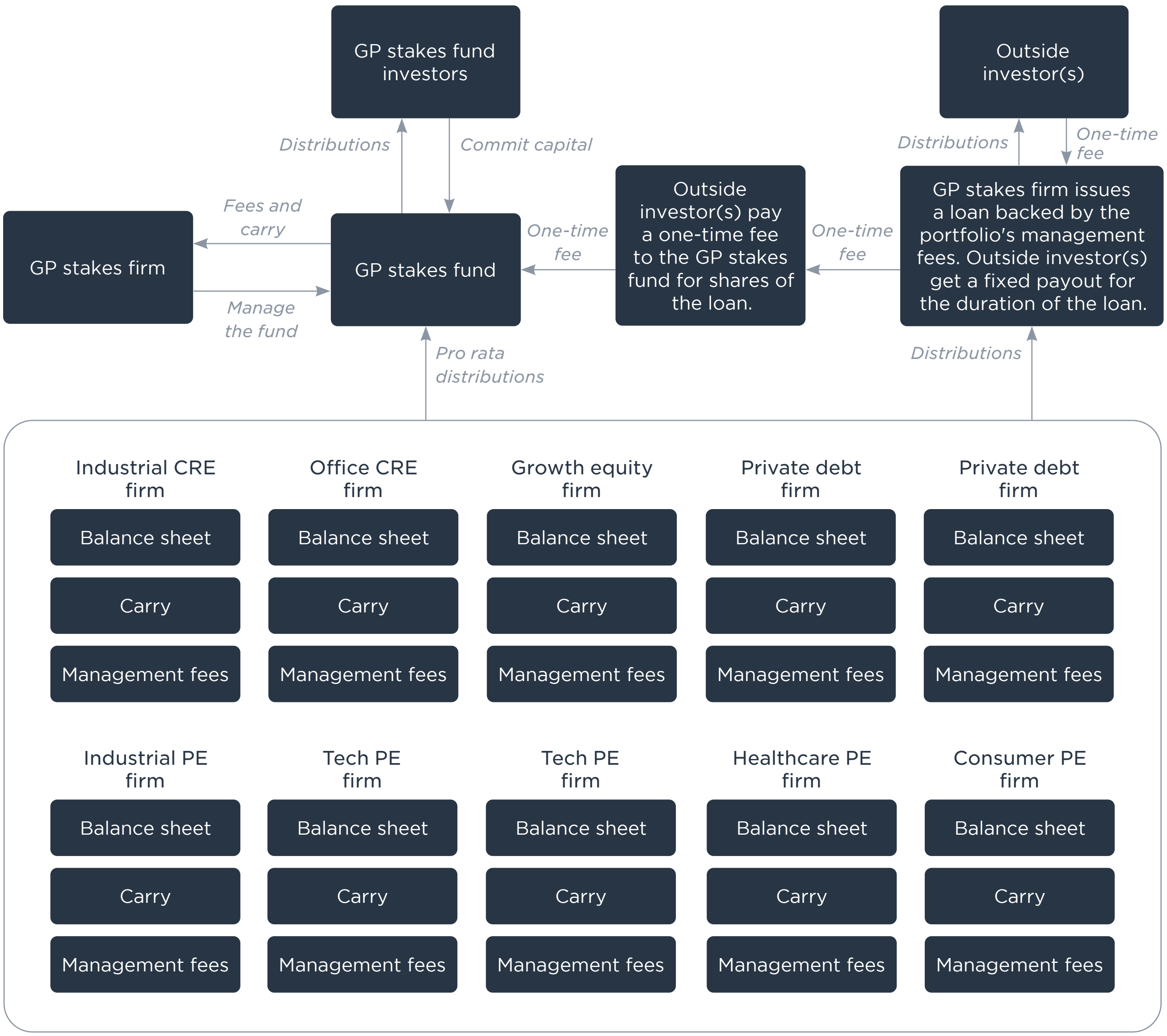
Fund	Description
Dyal III	Dyal III is a $5.3 billion, 2016 vintage GP stakes fund. In June 2020, Dyal issued a $1.0 billion dividend to LPs secured by the fund's management fees. The dividend was financed by a A- rated nonrecourse debt offering with a fixed coupon of 4.4%, according to sources. 20 investors, mostly US insurance companies, backed the offering, which was understood to have a loan to value of approximately 15%. The $1.0 billion dividend equals nearly 19% of the fund's original size.
Petershill II	Petershill II is a $1.4 billion 2014 vintage GP stakes fund. In October 2019, Petershill issued a $350.0 million dividend to LPs secured by the fund's cash flows. The dividend was financed by a BBB rated nonrecourse debt offering with a 10-year fixed coupon of 5.0%, according to sources. The offering is understood to have had a loan to value of less than 30% and the $350.0 million dividend equals just over 24% of the fund's original size.

Source: PitchBook

Looking at Petershill II's, Dyal III's, and AMG's leverage levels, we conclude that a debt load equating to 2x to 3x the portfolio's ENI is appropriate for GP stakes funds targeting the top end and middle market. Due to the size and diversification required to underwrite these loans, top-end and middle-market GP staking funds are best positioned to recap a portfolio. These funds could likely apply more leverage and do it sooner in the fund's life. However, since middle-market-focused GP staking funds are much smaller, and since the GPs in which they invest are not household names, the funds likely have to wait until the portfolio is more mature than a top-end GP stakes fund, and the middle-market fund would likely have slightly less leverage available (or the same leverage would be more costly) compared to a top-end fund. Middle-market funds may want to be more cautious with their leverage usage than top-end funds and likely limit the debt to 2X ENI after the portfolio has been built out. This equates to approximately a

$250 million to $350 million loan, assuming a $1.0 billion fund size. This is not to say small GP stakes funds could not lever up, but it would be more expensive and is less likely to occur depending on the number of GPs in the portfolio and the portfolio size.

Illustrative example of dividend recap

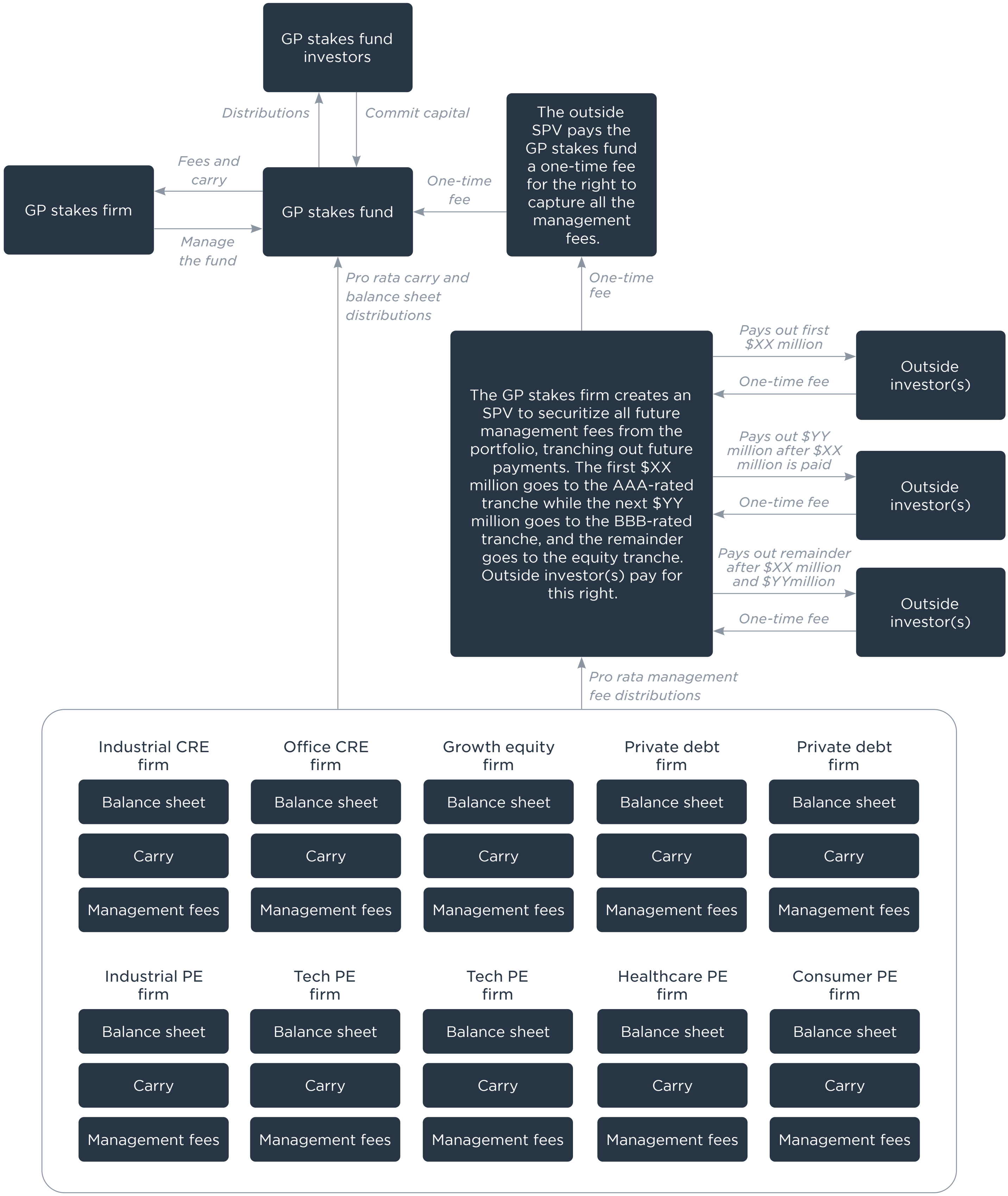


Securitization

A securitization of a GP stakes portfolio can come in several variations but almost always revolves around securitizing the future management fees. Just as the debt offerings that Petershill and Dyal issued to finance their dividends show, investment bankers can model out and value a portfolio of future private capital management fees. However, these two instances were just 10-year issuances. A securitization in this context could stretch into perpetuity and include all management fee earnings. Sources at several investment banks indicate that there is interest from GP staking firms in securitizing some or all (including performance fees and balance sheet investments) of the fund's cash flows, tranching the cash flows out, selling the pieces, and monetizing the portfolio. One specific structure sources shared with us was a GP looking to securitize all future management fees, tranching out the cash flows into an AAA-rated tranche and a BBB or A tranche, and selling these securities to a broad syndicate of investors or a large insurance company or SWF, for example. This would allow the LPs to receive 70% to 90% of their initial fund commitment in one fell swoop, after the fund had already paid out 60% or more. The structure also allows fund LPs to retain all the carry, which could be considered the equity tranche. The same GP could even securitize the carry and balance sheet income at a later date to return all LP capital.

This path is likely best suited to firms such as Petershill, Dyal, and Blackstone because their multibillion-dollar portfolios have the cash flow stability and diversity needed to underwrite these securities at an attractive valuation. Middle-market portfolios could use this path in the future, especially if they see a healthy step-up in valuations, but it will likely be rarer and more expensive. At the small end, this option is costly and not as attractive because the asset base may not be sufficient for the securitized management fees to achieve a desirable valuation.

Illustrative example of securitization



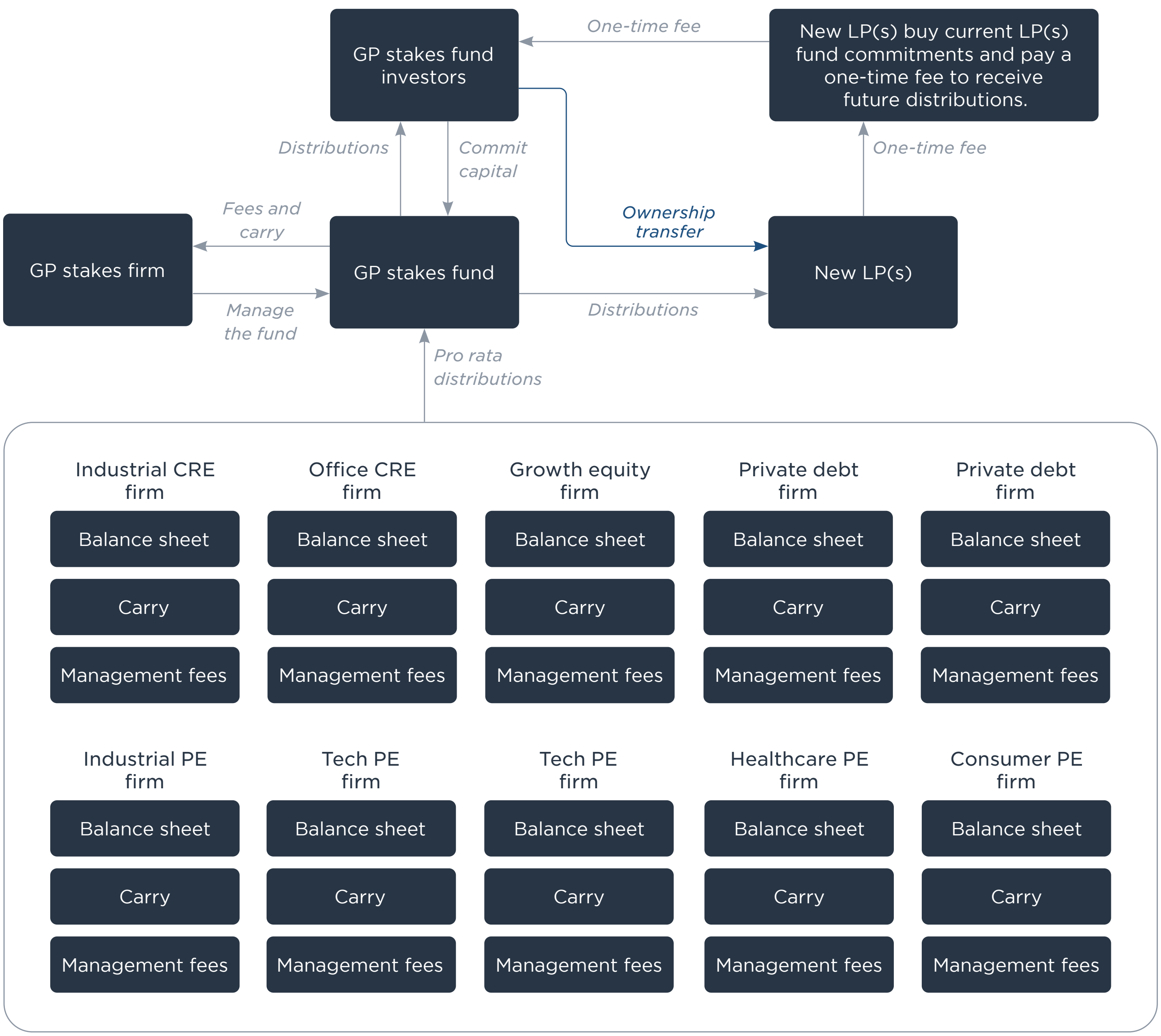
Other liquidity paths

LP secondaries

While all the previous monetization options are initiated by either the GP staking firm or the target GPs, an LP-led secondaries transaction allows the fund's LPs to control their own liquidity path. The secondaries market has grown and matured to the point that cumulative transaction value may approach $100 billion in 2020. The deeply liquid market also means that LPs invested in funds focused on the top end are just as likely to find success as LPs in invested in smaller GP staking funds. A more competitive market across the spectrum also means pricing discounts are less frequent.

The GPs that spoke with us all said they would support an LP's wish to pursue liquidity through a secondaries sale. Events from new CIOs to

Illustrative example of LP secondary sale



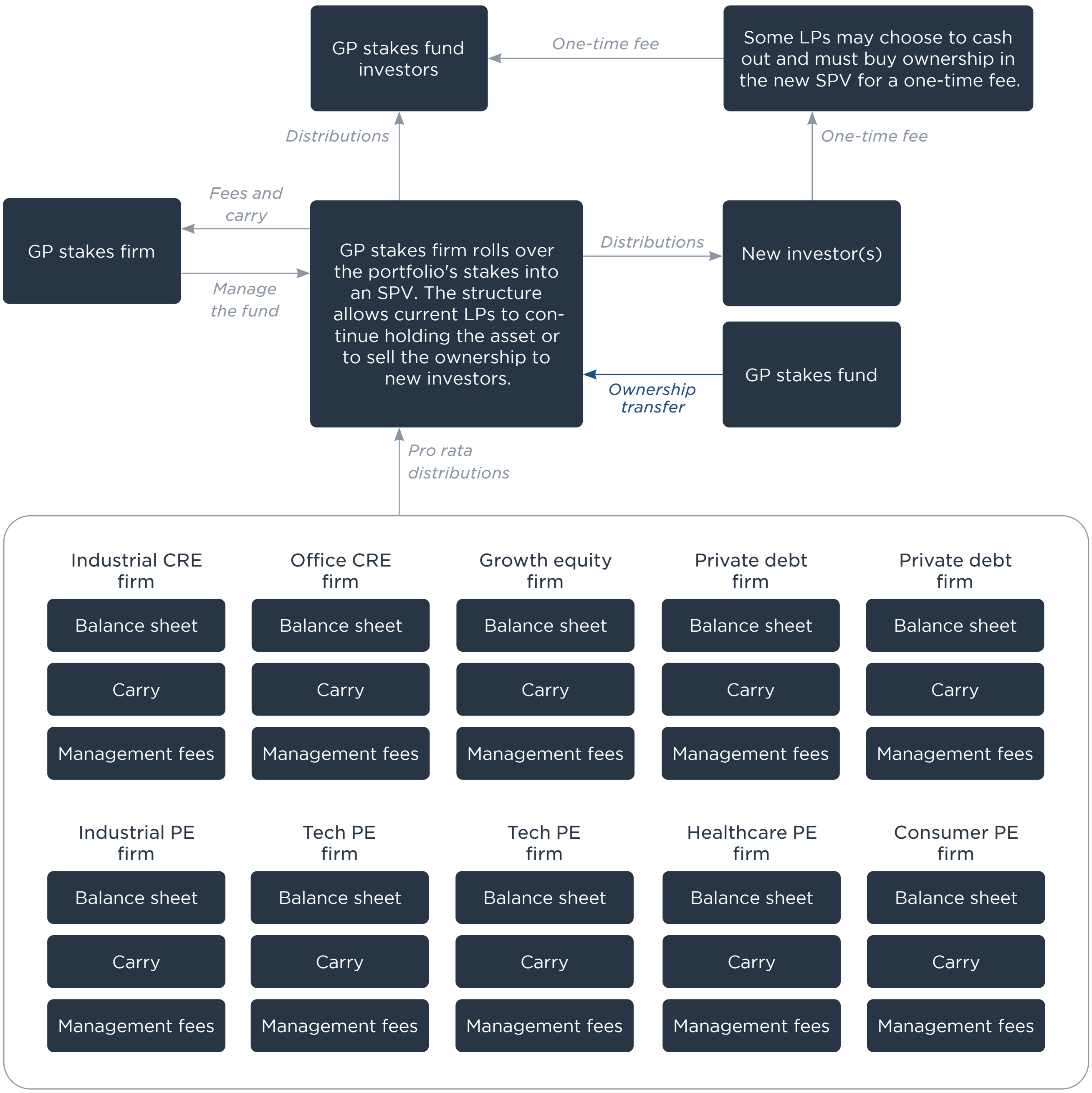
liquidity needs may cause an LP to sell, and the stigma of exiting a position through the secondaries market is now gone. In fact, one high-profile GP stakes fund sale has already occurred on the secondaries market, and there have likely been others. Alaska Permanent sold a roughly half-billion-dollar stake in Blackstone Strategic Capital Holdings I to Ardian in 2018. Given the focus on yield, many within the secondaries market are likely to be attracted to GP stakes funds. The perpetual nature of the largest GP stakes funds could cause problems in the secondaries market where the funds have a finite lifespan, but the market for these fund stakes is liquid enough to be sold again if needed.

GP-led secondaries

Regarding the secondaries market, we could also see GP staking firms utilize GP-led secondaries fund restructurings. These types of deals usually only occur when a GP is holding an asset(s) while approaching the end of the fund's predefined lifespan. In GP stakes, where deals can frequently last a decade or more, running into this problem is probable. Although this is unlikely to occur at the top end because their funds are set up to have perpetual lives, most middle-market and small GP stakes funds have lives between 10 and 15 years, meaning they may need to pursue a GP-led restructuring in the future.

The GP-led process is attractive for LPs involved because it gives them optionality: liquidate their stake in the fund or continue to hold. It also allows GPs to reset fund economics and place the remaining asset(s) into a new special purpose vehicle (SPV) that usually gives them another three to five years to manage the asset(s). If a GP-led restructuring of a GP stakes fund does take place, the new SPV would likely not have a predefined lifespan. This is how Blackstone structured its recent recapitalization of BioMed, rolling the asset out of a traditional fund into a perpetual life SPV, which gives the GP unlimited runway to manage BioMed in the largest-ever GP-led secondaries transaction. Due to the depth in the secondaries market, a GP-led restructuring should be relatively easy for GP staking funds targeting middle-market and/or small firms.

Illustrative example of GP-led secondary sale

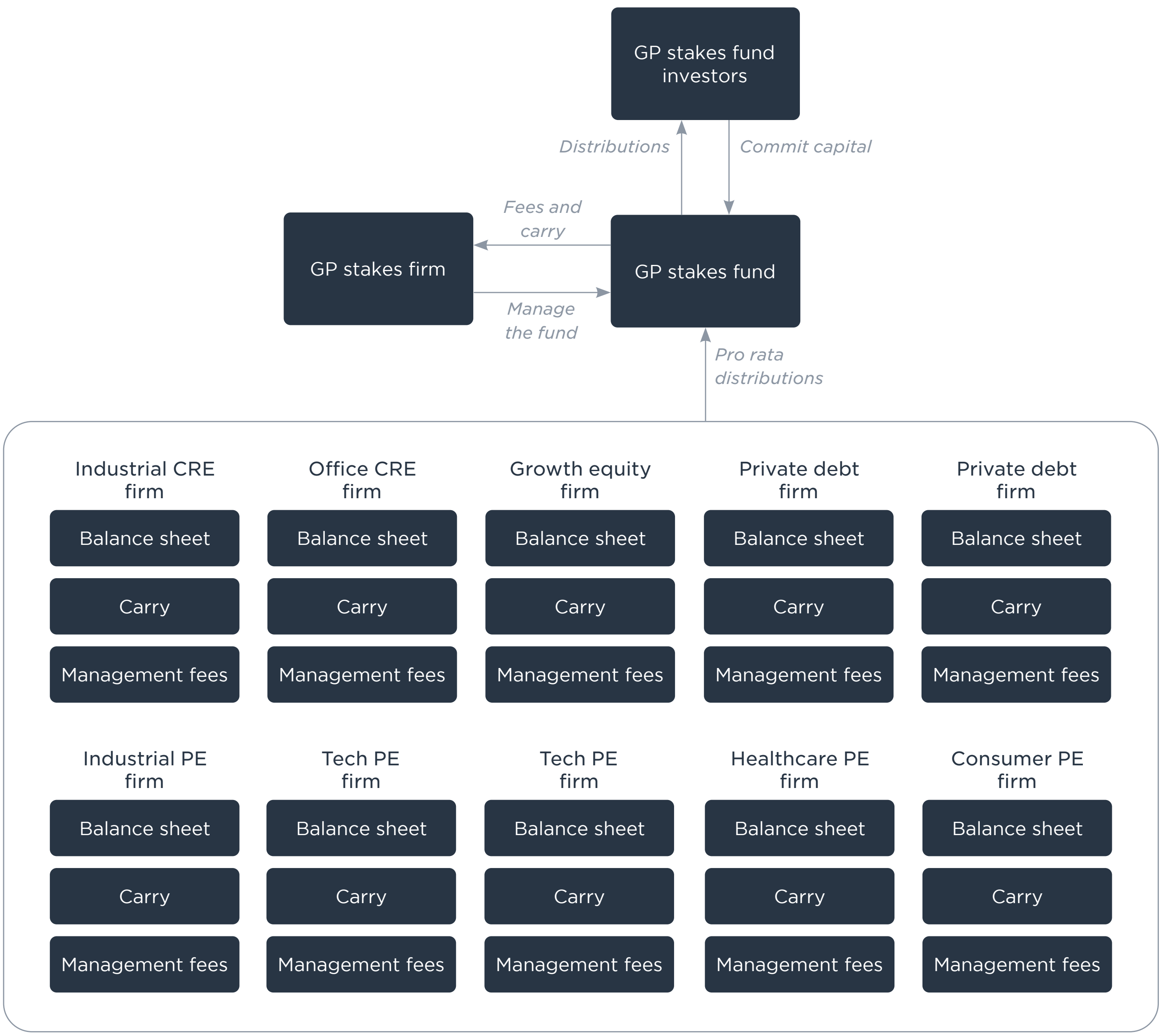


Collect the income

Perhaps the most basic monetization option is to simply collect the distributions. One of the most appealing aspects of GP stakes investing is the strategy's high, unlevered dividend yield. This element alone continues to attract LP capital. As Michael Rees said at an industry conference, "We have investors who want to own these cash-flow streams not just for the typical seven-to-10-year periods but for decades." The self-amortizing investment pays back investors over time, and it should be easy for LPs invested in GP stakes funds focused on top end, middle market, and small

GPs to collect the steady income stream. This option can theoretically last forever in new GP stakes funds focused on top-end firms but has a built-in end for middle-market and small GP stakes funds because they are typically not set up to last into perpetuity. The yield component is not just long in duration; it can be lucrative, too. Bloomberg pegs Petershill II's annualized yield in the mid-teen range when it sold a portfolio of stakes to AMG. Our internal analysis and discussions with GP staking firms lead us to believe this type of performance is not an anomaly in the space.

Illustrative example of collecting the income



Feasibility review

A heatmap is included in this section to easily compare our grading of the feasibility of monetization routes for different GP stakes fund sizes. We see that the middle market likely offers the most feasible paths to monetization because the funds are large enough to finance and securitize, yet small enough for single-asset and portfolio sales to remain on the table. For their parts, both smaller and top-end-focused GP staking firms still have plenty of options available to monetize these portfolios.

As we look to the future, there is still much work to be done when it comes to making GP stakes more transparent. In future reports, we plan on taking a deeper look into the investable landscape of target GPs and perhaps opining on how GP stakes funds could or should be categorized within a broader private market portfolio.

GP stakes monetization route heat map