

# Private Credit & Niche Secondaries Market Update

May 2021



DORCHESTER  
CAPITAL ADVISORS, LLC

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# PRIVATE CREDIT & NICHE SECONDARIES

Hosted by Linchpin IFM Ltd and Dorchester Capital Advisors



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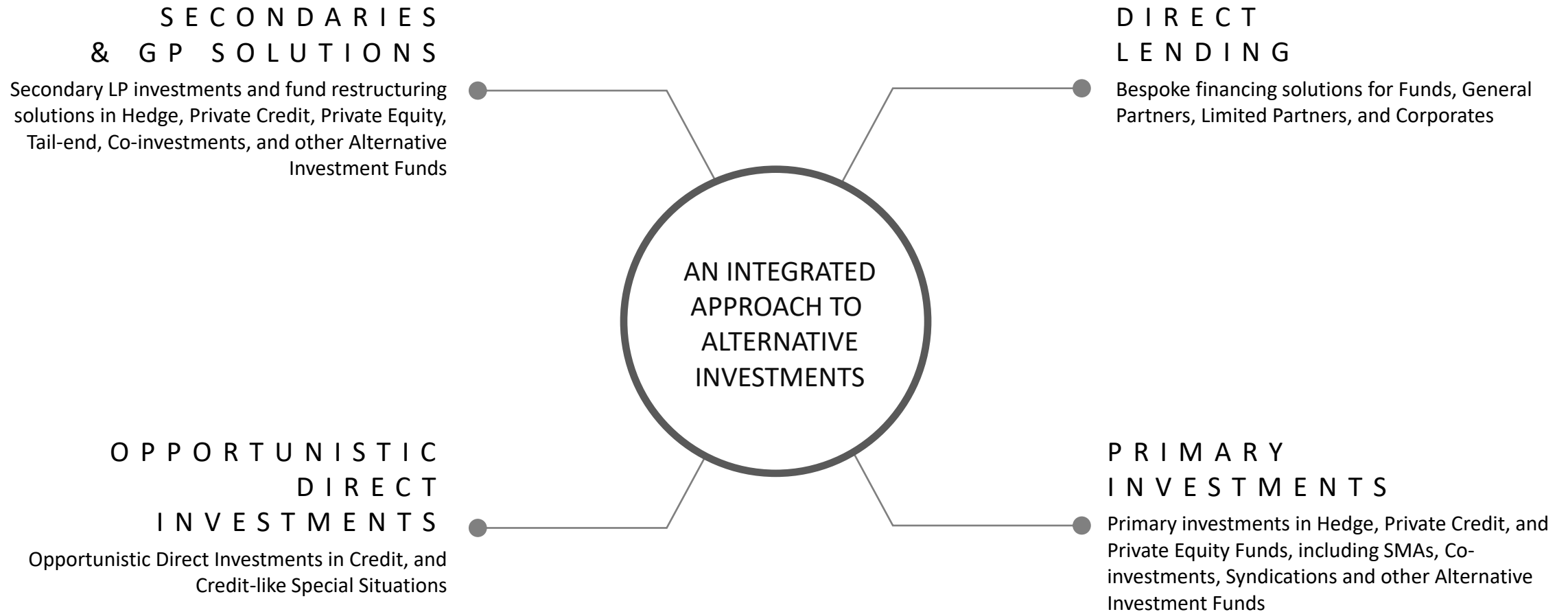
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# DORCHESTER CAPITAL - OVERVIEW

With over \$1.1 billion of assets under management as of May 2021, Dorchester invests between \$1 to \$50 million<sup>1</sup> in any single fund or asset, and up to \$200 million<sup>1</sup> in diversified portfolios of funds or assets, among the following categories:



<sup>1</sup> Through Overflow Funds, Dorchester periodically invests in transactions in excess of \$50 million for single assets or \$200 million for diversified portfolios

# WHAT ARE PRIVATE CREDIT & NICHE SECONDARIES?

The secondary market for private equity fund interests is mature and relatively efficient. Other alternative investment categories have not developed deep secondary markets despite dramatic growth in assets.

Private Credit & Niche Secondaries include:

## Private Credit

- **Distressed/Special Sits**
- **Structured Credit**
- **Direct Lending**
- **Mezzanine**
- **Specialty Finance**

## Hedge Funds

- **Side-pockets / SPVs**
- **Gated or suspended funds**
- **Co-investments**
- **Long lock-up funds**

## Private Equity

- **Distressed / Spec. Sits**
- **Complex situations**
- **Smaller & off-the-run funds**
- **Tail-end funds**

## New Alternatives

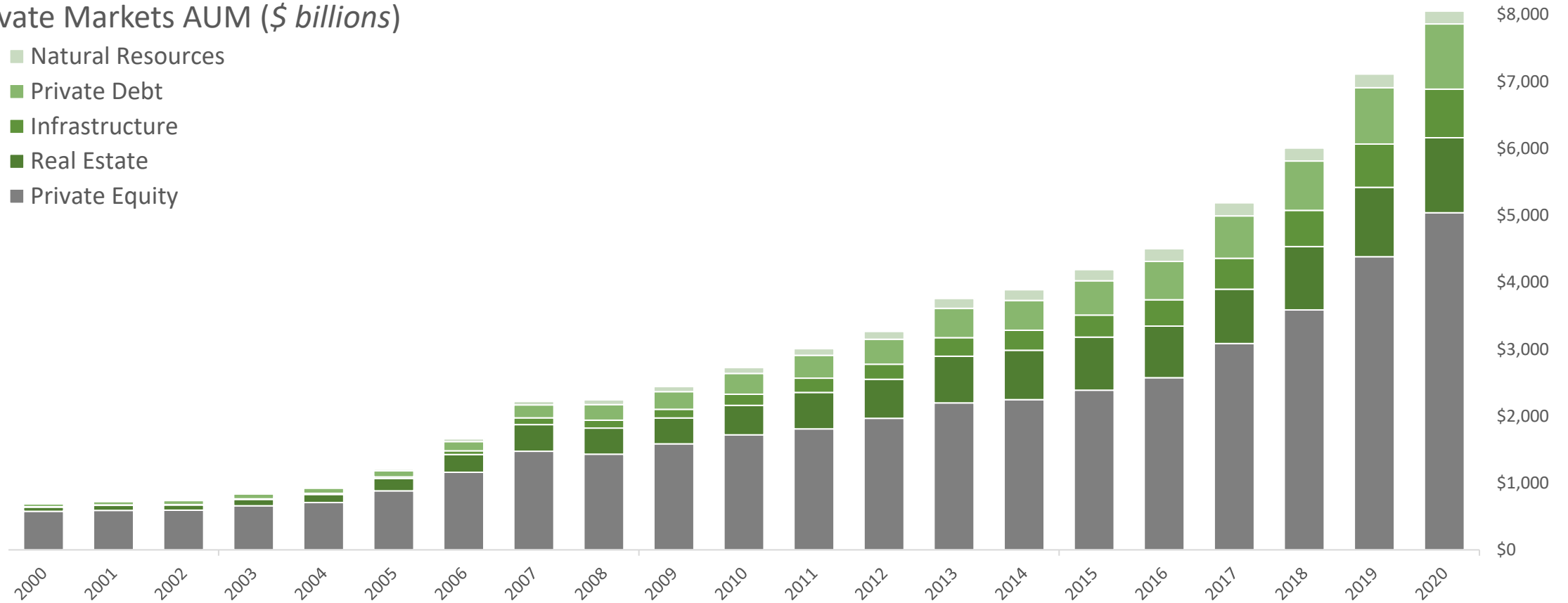
- **Litigation Finance**
- **Royalties**
- **Aviation & Maritime**
- **Private Co. Stock Lending**

# INVESTORS EXCHANGE LIQUIDITY FOR YIELD

Investors searching for higher yields are gravitating towards longer duration, less liquid alternatives with potentially greater risk like Private Equity and Private Credit, which can also use leverage to enhance returns and whose results may not be known for some time

Private Markets AUM (\$ billions)

- Natural Resources
- Private Debt
- Infrastructure
- Real Estate
- Private Equity



Source: Preqin

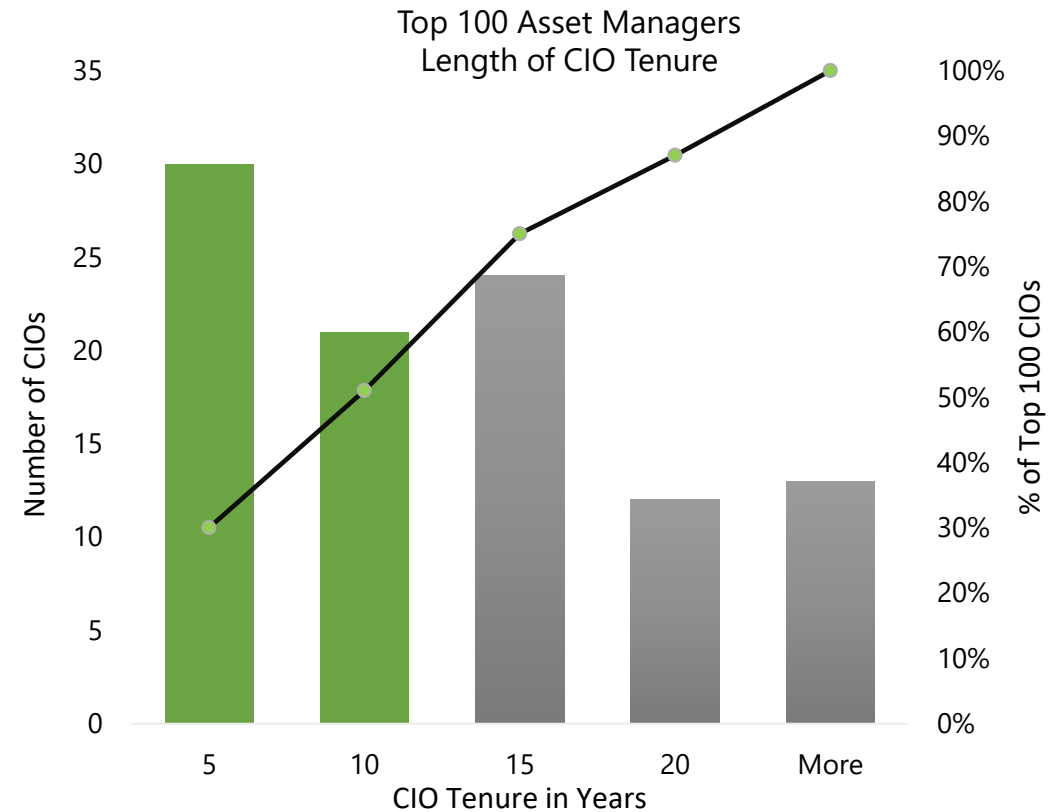
# “WHEN THE FACTS CHANGE, I CHANGE MY MIND”

-John Maynard Keynes

Organizational priorities, CIOs, board members, Investment Policy Statements, fundamental views on the markets, return expectations, and GP & consultant relationships may change over time, necessitating re-evaluation of portfolio holdings, especially small and unintended assets. Investors are increasingly turning to the secondary market as a portfolio management tool to respond to changes.

The secondary market for private equity investors is mature but has only recently developed for private credit and niche alternatives.

As noted on chart on the right, more and more CIOs are reaching their expected tenure leading to future CIO staff (and subsequent portfolio) turnover

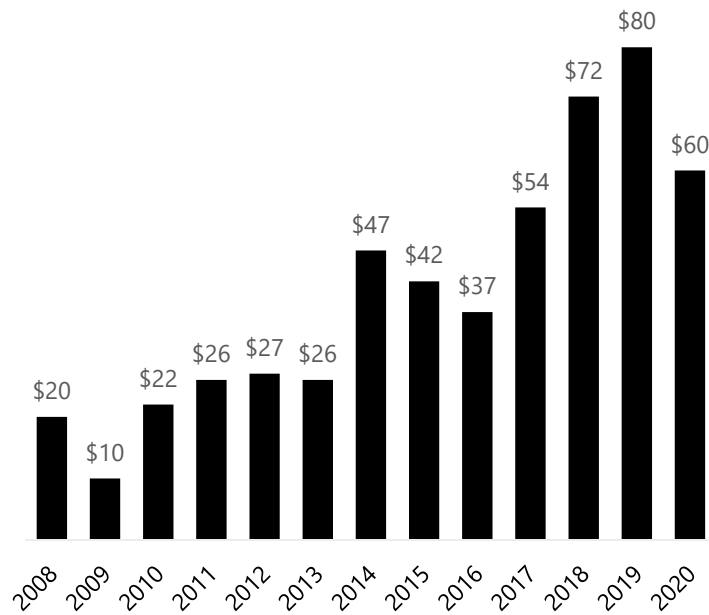


Source: AI-CIO Magazine

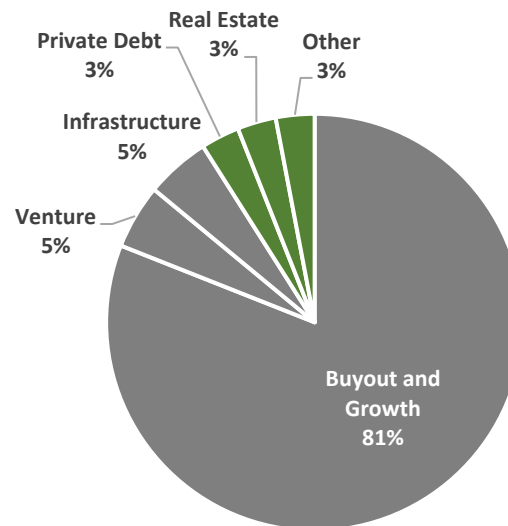
## SECONDARY MARKET TRENDS

Secondaries fundraising and transaction volume have soared since 2009, but buyers are concentrated in buyout and growth equity strategies. Despite rapid growth in Private Credit and Niche Alternatives, there are few secondary buyers focused on these categories, in part because they are substantially different GPs and underlying assets.

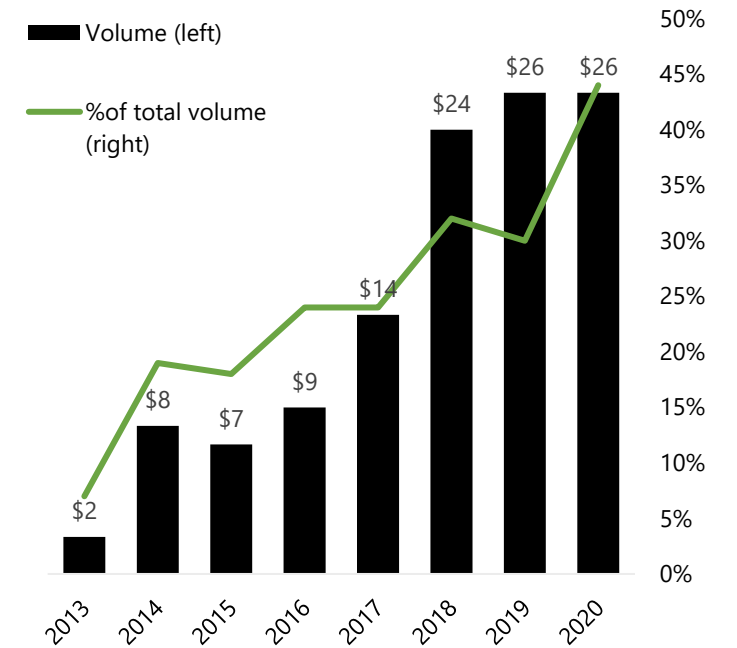
Secondary Market Volume (\$ billions)



2020 Transaction Volume by Asset Class



Growth in GP Led Secondary (\$ billions)



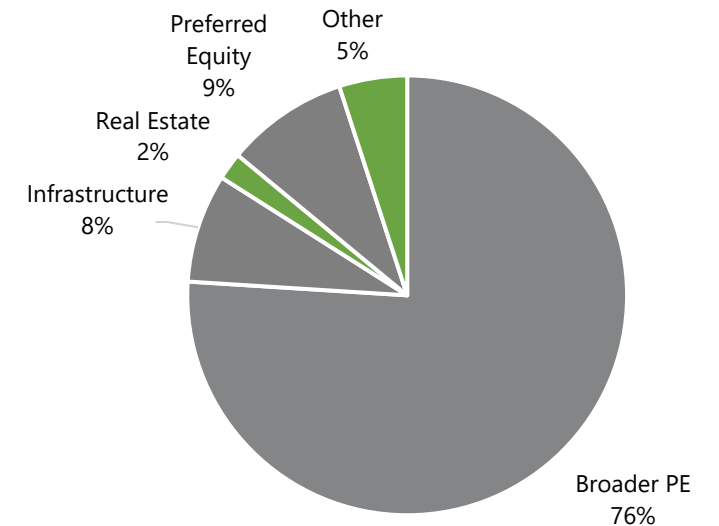
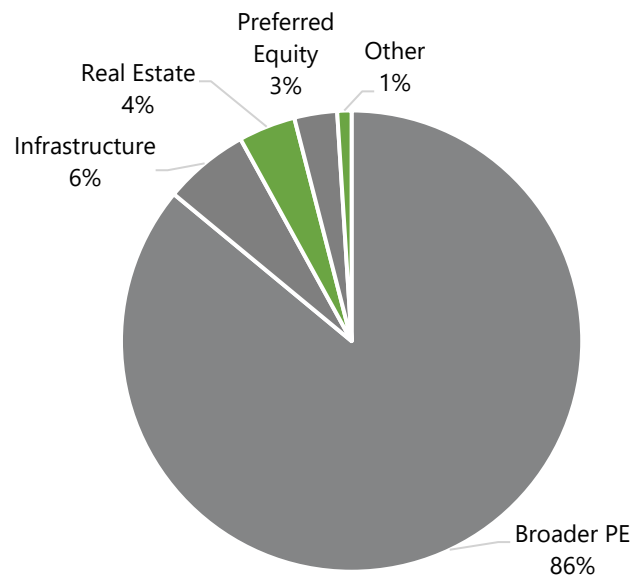
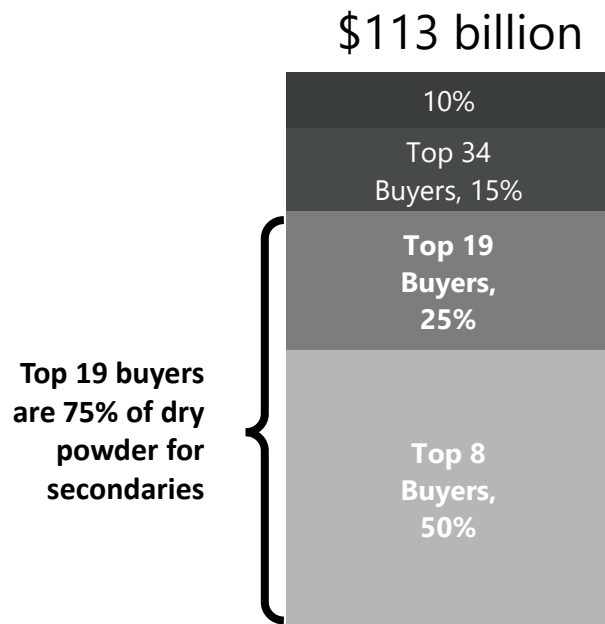
# DRY POWDER IS CONCENTRATED IN PRIVATE EQUITY SECONDARIES

Eight mega-funds account for 50% of the dry powder of secondary buyers, which drives the market’s focus on large portfolio and GP led transactions in private equity. Most secondary funds’ current and planned deployments are concentrated in highly transparent LBO and growth equity funds (86% of volume). Smaller, more off-the-run, and less transparent strategies or managers are eschewed by larger players.

**Secondary Market Dry Powder (12/31/20, \$b)**

**Secondary Market Dry Powder – Split by Asset Class**

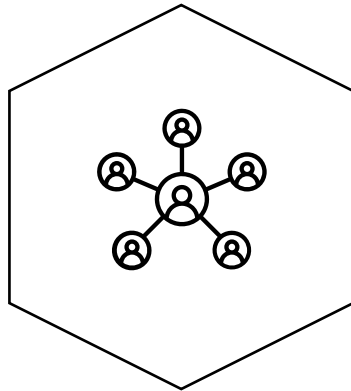
**Secondary Market Fundraising – Split by Asset Class**





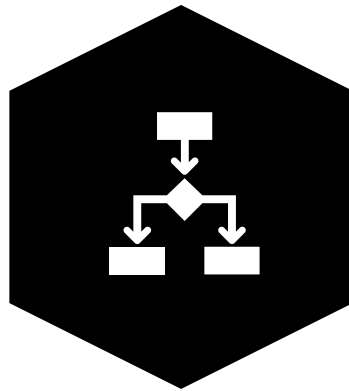
# UNIQUE UNDERWRITING CHALLENGES

Underwriting private credit and niche secondaries takes uncommon expertise.



## RELATIONSHIPS

Effective buyers have existing relationships with general partners in private credit and other strategies. By mandate and experience, most PE secondary funds lack this network.



## FUNDAMENTALS

Credit and Niche Secondaries require fundamental, bottom-up analysis and the ability to solve for complex situations.



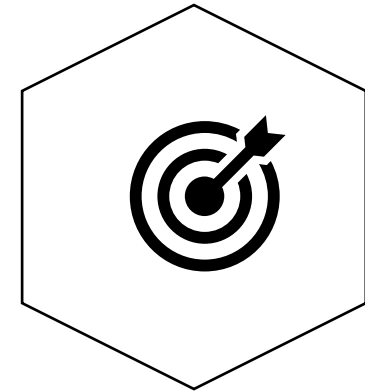
## TRANSPARENCY

Credit and Niche Secondaries frequently lack transparency PE secondary buyers are accustomed to having. Effective buyers can overcome this through pre-existing GP relationships and knowledge.



## COMPLEXITY

Niche Secondaries sometimes involve complex issues, such as esoteric investment strategies, structures, legal issues, or counterparty considerations.



## MANDATE

Many secondary buyers cannot buy Credit and Niche Secondaries due to restrictive mandates or Investment Policy Statements.

# NICHE SECONDARIES AS ALTERNATIVE CREDIT

There are key differences between Private Equity and Private Credit & Niche secondaries, and thus who should be shown which offerings.

## ASSETS

Private equity secondary buyers, given their size and need for transparency, are not inclined to purchase outside their core focus, leaving other categories with few natural buyers.

## STRUCTURE

Private Credit & Niche Secondaries often involve fund interests that do not conform to the terms for secondary private equity funds i.e. too short duration.

## SIZE

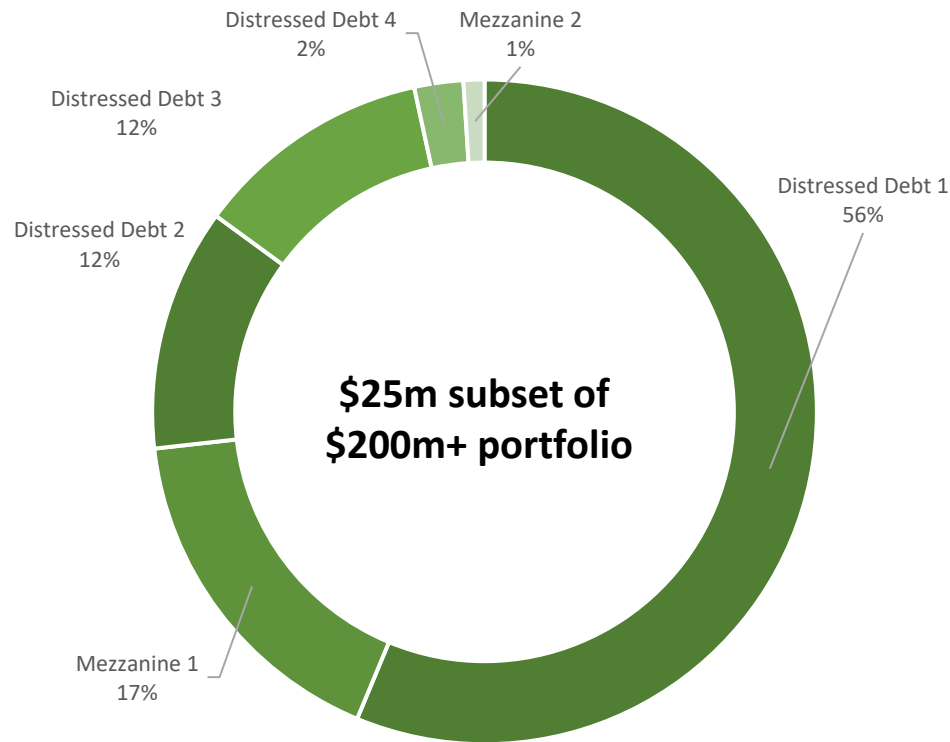
Secondary sales of private credit, hedge funds, and other niche alternatives are frequently smaller, require unique due diligence, and are shorter duration than the required threshold for many traditional private equity secondary buyers.

	Credit & Niche Secondaries	Private Equity Secondaries
Underwriting Criteria	Preservation	Growth
Diversification	Highly diversified	Increasingly concentrated
Duration	2-4 years	5-10 years
Correlation	Low	Moderate
Competition	Limited	Competitive

# CASE STUDY: PROJECT SILVER

## Transaction Summary

A private pension sought liquidity on a \$200+ million portfolio consisting of more than 25 fund interests, \$25 million of which were credit strategies. Outperformance in the seller’s broader private equity portfolio provided “cushion” to accept a discount, especially with a timely sale by quarter-end.



## Dorchester’s Advantage

### HOLISTIC SOLUTION

Dorchester bid jointly with traditional PE secondary buyers, who did not have the due diligence expertise to buy the niche and credit assets. Dorchester’s specialist nature resulted in better overall pricing and execution.

### APPROVED BUYER

Dorchester is one of only two approved buyers of the largest position, Distressed Debt 1, thereby reducing execution risk for the seller<sup>1</sup>.

### TRANSPARENCY

Dorchester overcame limited transparency through its pre-existing relationship with 4 of the 5 credit and niche GPs in the portfolio, and independent knowledge of major underlying positions.

### CREDIT EXPERTISE

Dorchester developed a constructive view and identified overlooked sources of value due to knowledge of the managers, underlying positions, and fundamental credit underwriting expertise.

1. Private Credit and Hedge Funds do not typically want to devote time to provide necessary transparency for secondary transfers, so they limit sales to pre-approved buyers. Please see Disclaimer on the cover page of this presentation.



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## Additional Information

Dorchester is happy to work with prospective sellers on how best to position their portfolios for a secondary market process. Dorchester provides liquidity solutions to Limited and General Partners of Private Credit, Hedge Funds, Private Equity, and other Alternative Investment Funds. Dorchester is willing to work with opaque, illiquid, overlooked, complicated, or time constrained situations.

Whether buying illiquid LP Interests or restructuring an entire fund, Dorchester is a trusted partner that can craft solutions to meet your specific needs and overcome constraints to achieve your desired outcomes.

Please contact Sophie Gioanni, Rob Johnson, or Jason Gabrielli for additional information.