



# GP-leds vs. LP-leds

A head-to-head comparison of performance since 2018

## GP-leds vs. LP-leds

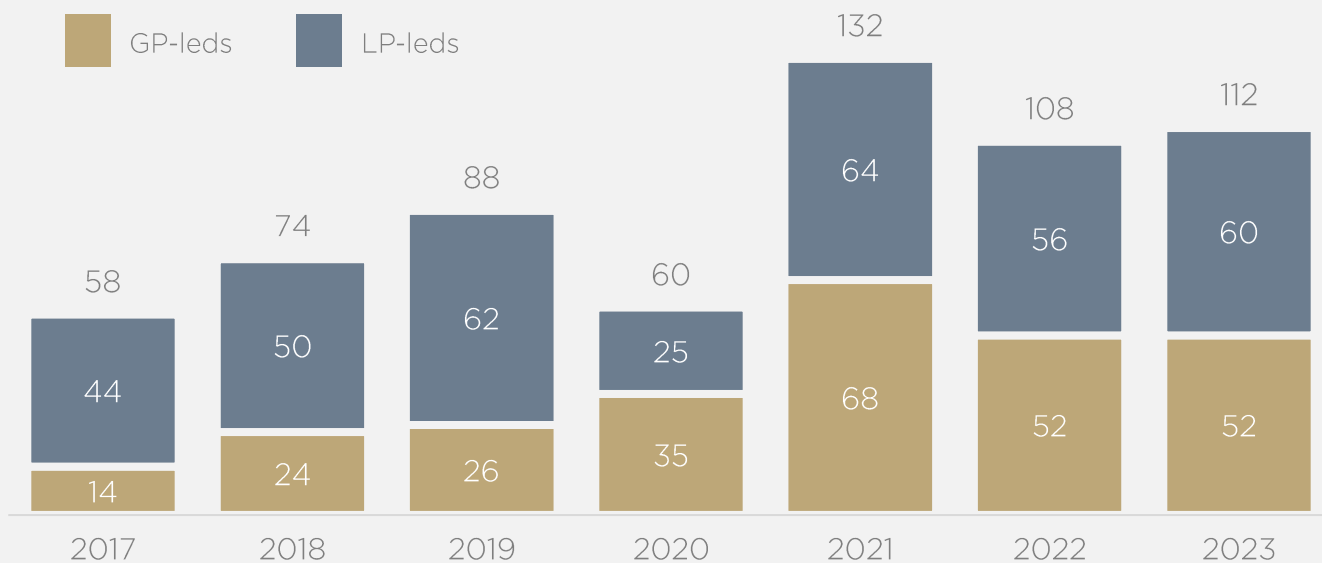
Over the past twenty years, secondaries have grown from ~\$5 billion of annual volume to over \$100 billion.<sup>1</sup>

As the market has matured, secondary investors have pursued different types of transactions. One form of transaction, called a GP-led secondary, has become increasingly popular and now represents more than 40% of all secondaries.

In this paper, we compare the performance of GP-led deals to the more traditional, LP-led secondaries. Is the growing popularity of GP-led secondaries justified? How do they stack up against LP-leds?

### Annual Transaction Volume<sup>1</sup>

In \$, billions



## GP-leds have done well

Average TVPI<sup>1</sup>

1.51x

Average DPI<sup>2</sup>

0.35x

In a GP-led transaction, a fund manager will sell one or more portfolio companies from an existing fund to a new fund they establish and manage, often called a continuation vehicle. In effect, the manager selects companies that are doing well but could use additional time to maximize value.

By their very nature, GP-led transactions tend to be highly concentrated, with a sizeable portion involving only one company.<sup>1</sup> Typically, these transactions occur at or near the companies' holding values. Due to their concentration and lack of discount, GP-leds are generally viewed as higher risk compared to traditional LP-led secondary transactions. However, they are also regarded as having significantly higher return potential.

*Well, how have these transactions performed?*

A recent study by the secondary intermediary Evercore and HEC Paris, examined the performance of 108 GP-led secondaries.<sup>2</sup>

Vintage	Deal Count	Median TVPI	Median DPI
2018	6	2.35x	1.99x
2019	10	1.50x	0.21x
2020	15	1.57x	0.20x
2021	52	1.30x	0.00x
2022	25	1.20x	0.00x

Overall, GP-led secondaries have clearly done well, appreciating on average by 51%. In addition, they have returned on average 35% of invested capital.

## LP-leds have done better

Average TVPI<sup>1</sup>

1.78x

Average DPI<sup>1</sup>

0.51x

In traditional or LP-led transaction, a fund investor or limited partner sells one or more of its fund commitments to a secondary buyer. LPs sell for a variety of reasons, including: liquidity needs, overallocation, change in strategy, etc.

LP-led transactions tend to be more diversified than GP-led secondaries, often containing exposure to tens, if not hundreds, of underlying companies. Typically, these transactions occur at a discount to the funds' net asset values. Due to their diversification and discounted pricing, LP-leds are generally viewed as having more downside protection and carrying lower risk compared to GP-led secondary transactions.

### *How have these lower-risk transactions performed?*

Overbay conducted a study of LP-led transaction performance since 2018. In our study, we examined 333 deals completed by secondary funds ranging in size from less than \$200 million to over \$10 billion.<sup>1</sup>

Vintage	Deal Count	Median TVPI	Median DPI
2018	38	1.78x	0.76x
2019	93	1.62x	0.62x
2020	79	1.91x	0.44x
2021	100	1.32x	0.35x
2022	23	1.26x	0.00x

Overall, LP-led secondaries have notably outperformed GP-leds, appreciating on average by 78%. In addition, they have returned an average 51% of invested capital. This translates to **over 50% higher appreciation and almost 50% more distributions** on average than GP-leds.<sup>2</sup>



## The Power of the Discount

There are several possible reasons why LP-led secondaries have outperformed, but the most likely one is pricing.

Unlike GP-leds, which often occur at little to no discount, LP-leds typically trade at a discount to net asset value. As a result, LP-leds have two sources of returns: asset-level appreciation and the discount itself.

All else being equal, the discount significantly adds to the ultimate multiple of invested capital.

15%

Discount<sup>1</sup>

0.18x

Incremental TVPI at close<sup>2</sup>

## Extending vs. Monetizing

Furthermore, GP-leds, by design, extend the hold period for the underlying assets. In contrast, LP-led secondaries typically entail 'harvest phase' funds, where managers are actively monetizing their portfolios. This difference can result in LP-led secondaries having shorter durations, stronger cash flows and ultimately higher internal rates of returns (IRRs).

Harvest Phase  
Funds

Stronger Cash  
Flow

In summary, LP-led transactions have demonstrated commendable performance in recent years, appreciating more and returning capital faster than GP-led transactions.

However, it may be premature to pass judgment on GP-leds. Given the slower exit environment of the last two years, GP-led secondary investors have been able to invest in many great companies that would have otherwise been exited. It is entirely plausible that recent deals could emerge as strong performers in the years to come.

Discover Overbay's unique approach to secondaries. Our goal is to deliver the strongest distributions and the best risk-adjusted returns in private equity.

Speak with our team



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