

# Why is CPP Selling Private Equity?

Exploring the factors driving secondary sales in 2023

# **Bloomberg**

## **Canada Pension Plan Mulls Sale of \$3 Billion in Private Holdings**

June 2, 2023

The Canada Pension Plan is renowned as one of the world's largest and most respected investors in private equity. Despite being longstanding proponents of this asset class, recent reports indicate that CPP is planning a multi-billion sale of its private equity holdings.

This development has piqued the curiosity of observers who wish to understand the motives behind this decision and what insights it provides into the state of the private equity overall.

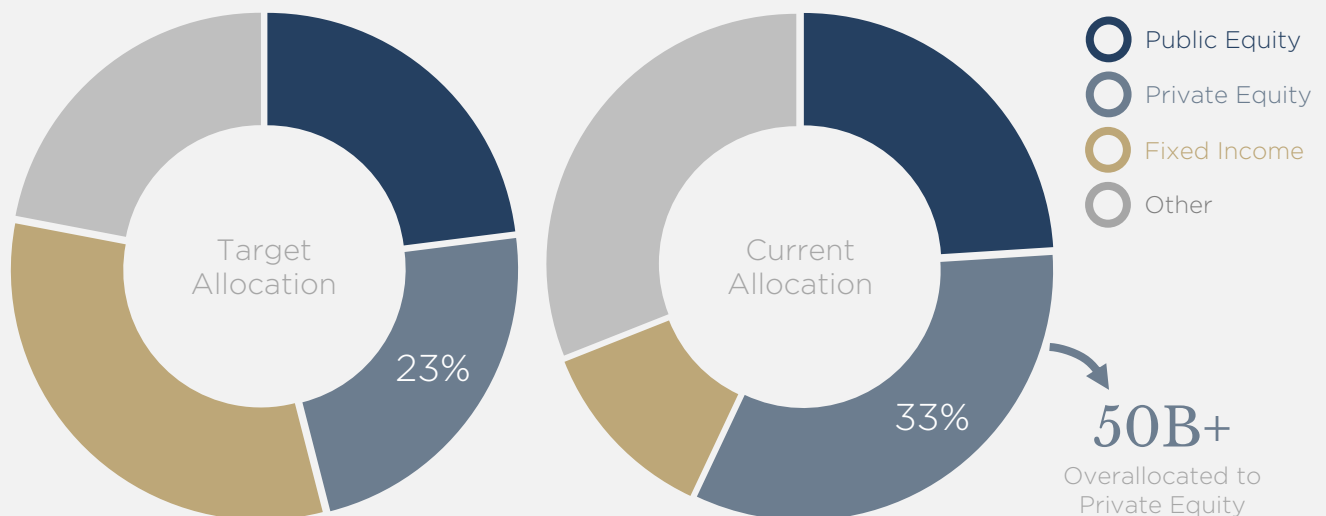
## The “Problem” is Outperformance

The outperformance of private equity, coupled with the market pullback of 2022, significantly inflated the proportion of private equity within institutional portfolios

One might think that CPP selling some of its private equity suggests a loss of confidence in the assets or the asset class.

However, the most likely reason for the sale is actually due to the remarkable performance of their private equity portfolio. Private equity has consistently been the plan’s top-performing asset class—generating, on average, 15% returns annually over the past five years.

The result is CPP now has 33% of its assets invested in private equity, far exceeding their target asset allocation of 23%. This overallocation creates an elevated level of risk for the plan and hampers their ability to make new investments across the portfolio.



## CPP is Not Alone

Many institutions are actively trying to reduce their exposure to Private Equity

### THE WALL STREET JOURNAL

Investors Seek Options To Reduce Overexposure To Private Equity

### FINANCIAL POST

PSP Investments Plans \$2 Billion Private Equity Stakes Sale

### Bloomberg

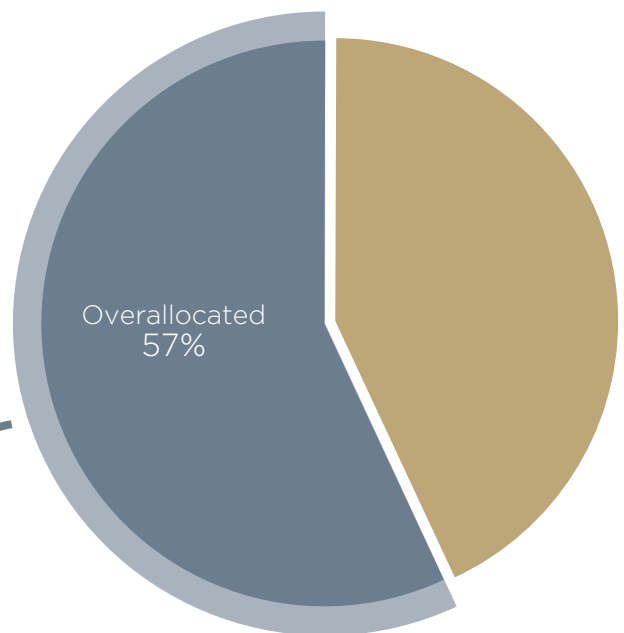
CalPERS Unloads Record \$6 Billion Of Private-equity Stakes At Discount

Since 2022, numerous other institutions have been seeking to reduce their private equity exposure through secondary sales.

The driving force behind this trend is the issue of overallocation. In fact, by Overbay's estimate, nearly 60% of institutions currently have more private equity than their targeted asset allocation.

In total, this overallocation issue amounts to over \$1 trillion of surplus private equity exposure held by these institutions.

**1.1T+**  
in excess PE<sup>1</sup>



## The Secondary Market is a Buyer's Market

Secondary buyers possess a significant advantage over sellers

Given the substantial surplus of private equity, as well as the prevailing uncertainty in the macro environment, it is clear that the secondary market heavily favors buyers.

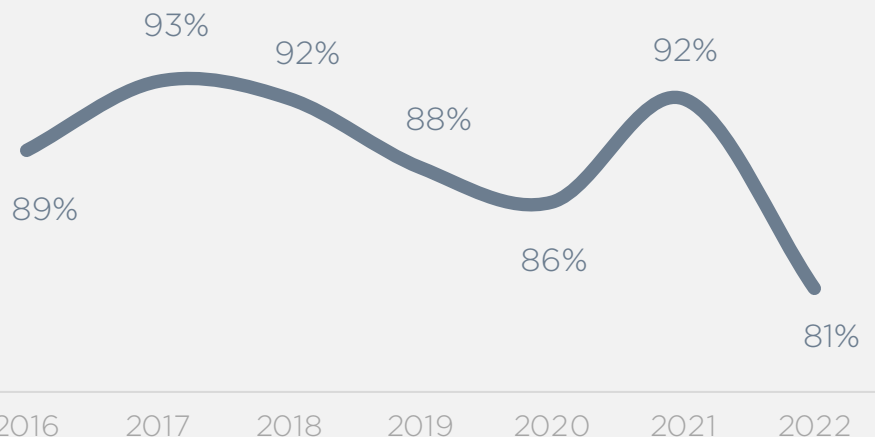
This is particularly evident through two key aspects:

1. Secondary market pricing has experienced a decline
2. Only high-quality private equity investments are saleable

Secondary buyers have the luxury of being able to be highly selective and sellers, seeking to unlock liquidity, must be prepared to part with their stronger assets.

## Secondary Market Pricing

% of NAV



Buyout Pricing<sup>1</sup>

▼10%

Venture Pricing<sup>1</sup>

▼23%



OVERBAY

Source: Jefferies Global Secondary Market Review 2023.  
<sup>1</sup>Pricing decline calculated as (2022 price % - 2021 price %) / 2021 price %.

## 2023 Offers a Golden Opportunity for Investors

With these dynamics in motion, it becomes clear that 2023 presents an exceptional opportunity for investors with available liquidity.

Through secondary funds, investors can build institutional-quality private equity portfolios at meaningful discounts.

Discover how Overbay can offer investors access to high-quality and diversified private equity exposure, while simultaneously reducing risk and shortening hold periods.

Speak with our team



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