

KEYNOTE INTERVIEW

The 'primary' edge



Firms that provide primary fund capital may have a distinct advantage in secondaries investing, say LGT Capital Partners' Martha Heitmann and Andrew DiGeronimo

Last year capped off more than a decade of unmitigated growth in private equity markets, with a sense of euphoria surrounding record performance. This trend was punctuated by a series of events: the war in Ukraine, substantial inflation, rising energy costs and the reversal of 14 years of interest rate declines in a few months.

Many managers will find it increasingly challenging to successfully navigate this paradigm shift and deliver sustainable returns. In this context, we spoke with two partners at LGT Capital Partners about how they are leveraging their primary platform to grow their secondaries business.

Q Twenty-five years ago, LGT Capital Partners started as an investor in primaries,

SPONSOR
LGT CAPITAL PARTNERS

and was then one of the first companies to enter the secondaries business. How and why did you keep moving into new business areas?

Martha Heitmann: Our private markets business today consists of various pillars. We started as a principal investor by making fund investments on behalf of our shareholder, and shortly after on behalf of third-party clients. Since our foundation in 1997, we have committed \$39 billion to 1,300 primary funds globally, and are currently deploying \$3 billion to \$5 billion per year to primary investments. Subsequent to our early successes in primaries,

we established our dedicated secondaries team at a time when it was still a very opaque market, as the experience in primaries helped us to explore this then-new space with the necessary knowledge and access. Over time, we have also developed business lines focused on co-investments and credit solutions.

Andrew DiGeronimo: Across the portfolio, we have built our business on the same common denominator: as a long-term investor, we foster sustainable relationships. In total, we have made more than 2,600 investments and nurture more than 600 manager relationships. With this track record of manager proximity, we identified the need for additional services, such as secondaries, early on.

Q What are the advantages of investing in secondaries when you have roots as a primary investor?

MH: The key advantage is that the network to sellers and GPs makes us a value-add partner, with early access to potential deals that are often highly restricted to a few buyers. We often see that GPs prefer to have their existing primary investor base buy interests in their funds, rather than having a pure secondaries player who is only there for this single transaction. Also, since we already know many upcoming potential opportunities in the secondaries market from our primaries business, we can really select the most attractive – and recognize the value of sometimes less obvious – assets in a broader portfolio, and are able to move efficiently in our decision-making process. The more time we spend with managers, the better is our common understanding of the deal dynamics, allowing for more accurate underwriting and ultimately, accretive returns.

Q How does this work in practice?

ADG: Our primaries business is focused on investing with high-quality managers globally, creating a quality filter on potential secondaries later in those funds' lives. Our secondaries business leverages our primary investment platform, which enables the team to conduct proactive research and regular monitoring of over 1,000 funds to identify the assets we are most interested in buying. This allows us to be nimble: seeking out assets we have identified as attractive to buy early on, as well as being able to respond quickly to changes in market conditions.

Q The integration of various business lines as the secret ingredient, so to say?

ADG: We are in the market trying to find the best opportunities for the entire platform. Alignment is key – our teams very much “win together” both

“At the end of the day, there is a common understanding that we are able to access many deals as a result of relationship-building”

MARTHA HEITMANN

in principal and practice. It is important to invest in technology to foster a system that allows our staff equal access to data in a consumable fashion. For many years, we have been sharing the same data system, making sure that all our meetings, all our notes and all our company information are accessible within the firm. That's incredibly powerful. Also, it is essential for us to have the primaries, secondaries and co-investment teams to each have access to our manager universe. In practice, this means we enable sponsor coverage for each team across all our core managers.

Q Doesn't this put you in danger of stepping on each other's toes? Who ultimately owns the relationship with managers?

ADG: The approach only works if you don't think in silos. In our case, we have solved the issue in such a way that we align our objectives around our overall private equity performance, not a specific strategy. Only in this way can we ensure that the teams act in the interests of the entire platform.

MH: At the end of the day, there is a common understanding that we are able to access many deals as a result of the relationship-building. In numbers, 75 percent of what we buy as secondaries investors is with existing managers, relationships that have been created and

cultivated for decades. The remaining 25 percent come from managers we have typically monitored for years before making a move. We succeed in this approach by working together.

Q A lot of players have tended to narrow their focus around industry verticals, or a particular asset class, and then grow through, say, larger transactions or new geographies rather than around manager relationships. Going forward, do you think that will remain the case?

MH: Our view is relatively sector-agnostic. However, we don't want to take risks that we cannot control. That's why we avoid cyclical industries or geographies that are less accommodative to private equity strategies. Our coverage verticals are aligned around GP coverage. In the secondaries team, all professionals cover a sub-set of GPs. On average, each professional becomes an expert in 18 funds and approximately 200 companies at any given time. That's a wealth of information to gather and review.

Q While you are headquartered in Switzerland, you operate 15 offices globally, including in New York and San Francisco. Are there any regional nuances on how you nurture your GP relationships?

ADG: Our business and footprint have grown over the last 25 years. Wherever we operate, proximity is key: in Europe, we staff deals based on language and regional expertise, and in the US, having offices on either coast allows us to be even closer to GPs and sellers. We buy what we know, and we value our relationships with the various market participants. This approach has allowed us to scale thoughtfully over time and continues to be a comparative advantage to remain competitive and generate attractive performance for our clients. ■