MEKETA

Secondaries in Sight? An Outsourced Chief Investment Officer ("OCIO") Perspective

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Meketa's OCIO clients have a wide variety of private market program needs. We believe in meeting our clients where they are, and in some cases, there may be a place for "secondaries" when designing their private markets program. In private equity, "secondaries" refer to the buying and selling of assets from primary private equity fund investors.

Why Outsource the Decision of Secondary Market Investment?

Outsourcing the decision of secondary market investments may be considered for several reasons.

1st Specialized Expertise: Secondary market investments require specialized knowledge and expertise.

2nd Efficient Resource Allocation: Managing secondary market investments internally may require significant resources and dedicated personnel.

3rd Access to Opportunities: Experienced secondary managers have established networks and access to unique investment opportunities that might not be available to the broader market.

4th Risk Management: Secondary market transactions come with inherent risks, including valuation uncertainties and market volatility. Professional managers are generally adept at identifying and mitigating these risks, employing sophisticated strategies to safeguard investments.

Evaluating Appropriateness: Provider and Client Levels

How does Meketa determine if secondaries are appropriate? The evaluation process is two-fold: generally focusing on both the provider and client levels.

Provider Level Evaluation: Meketa examines the capabilities and performance history of secondary managers. Key factors include the amount of capital already invested by the manager, discounts obtained in previous transactions, and overall market intelligence.

Client Level Evaluation: Not all clients require mitigation of the J-curve[1] effect or the addition of vintage year diversification. Meketa assesses each client's specific needs, investment goals, and risk tolerance to determine the suitability of secondary market investments. This tailored approach seeks to align investment strategy with the client's objectives.

[1] The J Curve effect refers to the early stage of a private equity investment, where returns are typically negative due to initial costs and unseasoned investments before eventually improving over time. Secondary investments can help mitigate the J Curve by acquiring more mature assets that have already navigated this initial phase, allowing investors to access a steadier return profile and reduced risk from day one.

What is the Focus of Secondary Manager Evaluation?

When evaluating secondary managers, there are a couple of key areas to focus on. How much capital does the manager already have "in the ground" at their fund? What discounts were applied to their purchases?

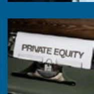
Capital in the Ground: The amount of capital already invested by a manager in their fund may provide insights into their commitment and confidence in their strategy. Managers with significant capital "in the ground" are often seen as more reliable, as their interests are closely aligned with those of the investors.

Discounts on Purchases: The discounts obtained in secondary transactions are crucial for maximizing returns. We pay particular attention to managers who have secured significant discounts, as this may demonstrate their ability to identify and capitalize on undervalued opportunities.

Secondary market investments may offer unique opportunities for investors looking to navigate the complexities of private markets with greater agility and potential value creation. By outsourcing the decision-making process to an experienced OCIO, clients may leverage specialized expertise, potentially gain access to exclusive opportunities, and mitigate potential risks.

Please visit the **Thought Leadership** section of our **website** or click the links here to learn more.

Limited Partner (LP) Secondary Markets
https://meketa.com/leadership/limited-partner-lp-secondary-markets/



Private Equity Primer
https://meketa.com/leadership/private-equity-primer-2/

A Timeless Approach to Asset Allocation
https://meketa.com/leadership/a-timeless-approach-to-asset-allocation/

The Art of Patient Investing
https://meketa.com/leadership/the-art-of-patient-investing/

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