Pomona on discipline, market changes

By William Amofah
on

Chief executive officer Michael Granoff reflects on how Pomona Capital has – or has not – adapted to the changing secondaries market, months after closing its latest fund.

Pomona closed its eighth secondaries fund on $1.75 billion in April. How will the firm invest the fund and how much capital has been deployed so far?

The fund will purchase interests in high-quality private equity funds, as well as portfolios of private equity companies. If you look at the fund, it's already about 40 percent committed and the assets currently in it are on average about 5 years old. Roughly 85 percent are US-based and they are mostly buyout assets.

Has Pomona changed its investment strategy between raising its debut fund and its latest, as the secondaries market has matured?

In some ways it hasn't changed at all and in some ways it's changed at lot. Our overall value system is unchanged – we're trying to buy the highest quality assets we can, at a compelling price. So for example, when we began – a decent amount of the deal flow that we saw was in venture capital.

If you look at capital flows over the last 20 years, you have enormous amounts that have gone into the buyout space. So today, much more of the market is on the buyout side and very little bit is on the venture side. The position sizes and the sizes of funds have also gotten larger – so we've had to adapt to that.

How do you view today's competitive landscape? Do you find it's more crowded?

If you look the number of lead competitors in our business today, and you looked at the number of lead competitors in our business 10 years ago, you'll find very little difference, which is not what you would think. The market has been competitive for a long time, but because it isn't an easy business to execute, we actually have not had a lot of new entrants into the market.

If you look at the relative size of Pomona, you find that it's pretty unchanged over 20 years. Pomona's first fund in 1994 was $45 million and the largest funds at that time were about $250 million. Now, fast-forward 20 years, and our most recent fund is $1.75 billion and the largest funds are now between $5 billion and $10 billion.

What we have is the same competitors that we've always had, for the most part, with more money, which means that our job is not easy, and that's why we have the strategy we have.

In terms of strategy, your website notes Pomona is focused on 'finding that 1 percent of deals for that meet its quality benchmarks'. How do you do that?

First, we have to keep the fund size fairly modest. So one of the ways we keep our discipline is that we don't have to take very much market share to invest in our funds. We can afford to buy only 1 to 3 percent of the doable deal flow we see.

Second, in order to execute our strategy, we have to have a lot of critical mass. We need to proactively seek out less efficient transactions, analyse the assets company by company, develop close relationships with fund General

Partners and provide creative solutions to sellers. And all this in a context when the sellers, funds and companies are everywhere.