

Secondaries Investor

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Q&A

Pomona's Granoff: We remain cautious around GP-leds

Secondaries Investor catches up with Michael Granoff, the firm's chief executive, on the back of its \$2.6bn raise for Fund X.

Congratulations on the fund close. The press release about the fund close notes that Pomona Capital has raised \$4 billion in capital across platforms. Could you break down the constituent parts of this figure?

Pomona Capital raised a combined total of [around] \$4 billion across its platform in the past two years. This includes our 10th secondaries flagship fund offering, Pomona Capital X, which was oversubscribed and capped at \$2.6 billion, the firm's retail product offering, the Pomona Investment Fund, which increased by \$450 million in subscriptions and various separately managed accounts totalling approximately \$1 billion in commitments.

What types of deals will Fund X invest in, and is there anything different about it compared with its predecessors, either by strategy, or fund terms?

Pomona Capital X, like its nine predecessor secondary funds, seeks to deliver on the fundamental premise of secondaries investing: solving for both growth and value with enhanced liquidity and a lower risk profile. We are agnostic about where we find value among deal types but we tend to find more value on the LP side of the market. We purposely use our modest fund size to be nimble and flexible to transact across deal types and sizes to seek to access the highest-quality assets. We are not seeking to buy a slice of

the generic secondary market, but instead emphasise quality, price and a margin of safety in our investment approach.

You have mentioned in the past that GP-led restructurings were an area Pomona didn't really want to participate in. Has this changed, and if so, why/why not?

We remain cautious around GP-led deals. When GP-led transactions began, our sense was that we did not see too many good funds that needed to be restructured. So if you were being asked to buy mediocre assets managed by mediocre managers trading at a high price we likely had better places for our investor's capital. As better quality assets and managers began to reach the market our interest increased but carefully. We have always been concerned about the concentration and lack of pricing power in GP-led transactions generally.

We are interested in GP-led transactions that provide us with opportunities to access quality assets that we are interested in and which will be complimentary to our overall portfolio construction. The GP-led transactions that are attractive to us exhibit the same secondary characteristics of our LP deals and the potential to deliver outsized returns with downside protection. This area of the market continues to evolve and today pricing spreads are widening and some transactions are not gaining investor support.

The wider private equity market is facing rising interest rates and inflation. How do you see the higher cost of borrowing affecting the secondaries market in terms of deals and returns? Is there anything Pomona is doing different, amid this environment, to mitigate these effects?

While we are not in the prediction business we are surely in the preparation business. What that means in the current environment is solving for a wide range of potential outcomes as we invest. It includes taking proactive steps to provide downside protection and positioning to capitalise on the upside. It means further tightening of our existing focus on quality assets as the dispersion of return in private equity expands in more challenging markets. We need to be price makers not price takers as we consistently acquire assets at a higher discount to NAV than the market averages. We have very limited exposure to geographies like emerging markets or sectors such as early stage venture where it is difficult to assess risk. And diversification is even more important just as many market players are becoming more concentrated.

In terms of our underwriting process, we calibrate our assumptions and sensitivities to reflect key risks. But we have not changed our underwriting processes as the approach is purposely designed to work regardless of market cycle.

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We are risk conscious investors and always consider potential downside risks. Knowing that we now should expect a likelihood or at least potential for persistent cost and labour inflation and a slower exit market means that those dynamics are incorporated into our base case today. Higher borrowing costs, margin pressures and contracting valuations were always a part of at least our downside

scenarios that we would run to make sure that we can still achieve return targets even in difficult macro environments.

Typically, we see a wider dispersion of returns between funds and between assets in more challenging or volatile markets and the current environment will not be an exception. At the same time, the margin of relative outperformance grows during these times and we are focused on

the opportunity to expand our relative outperformance as well.

Michael Granoff founded Pomona in 1994 and is its chief executive. Prior to his business career he served on the staff of the US House of Representatives Appropriations Subcommittee on Foreign Operations and was a member of the 1992 Presidential Transition Team for the Department of the Treasury.