



## THE GROWING SECONDARY MARKET FOR REAL ASSETS

**Q&A WITH BOSTON-BASED MANAGING DIRECTOR KEVIN WARN-SCHINDEL**

***Real assets are a relatively new and growing area within the broader secondary market. What are some of the catalysts driving deal flow and opportunity?***

I'd point to two main factors. First, we continue to see a secular increase in investable assets, which is a byproduct of the significant growth in real assets primary capital invested over the last 10 years and the corresponding interest among limited partners to liquidate some of those assets as they mature (see accompanying chart). Second, we're in a highly cyclical environment today within certain real assets sectors, and we're seeing more opportunities to buy into energy and other commodity-related investments at favorable purchase discounts.

***How has the market evolved over the past few years?***

In a relatively short period of time, the real assets market has gone from being a niche component of the larger secondary market to being sizeable enough to stand on its own as an investment segment. Our deal pipeline has nearly doubled in the past few years. Also, as the market continues to mature we are starting to see more spinout and general partner-led transactions trickle into the real assets space. While we're still in the early innings of this trend, we do see positive signs and are actively engaged in talking with GP's about additional solutions that can help meet their liquidity needs.

***Is there a particular deal you could highlight that demonstrates your team's capabilities and expertise?***

We recently purchased five partnership interests in a high-quality manager that had an attractive oil/gas asset based in one of the lowest-cost, highest-growth regions in the world. This deal initially came to us in 2015 as part of a broader portfolio of assets that included private equity partnerships. Despite the energy-related interests not trading at the time

due to a wide bid/ask spread on the pricing, we were able to use our deep knowledge of the assets and our relationship with the GP to continue to monitor the value of the portfolio and maintain an ongoing dialogue. When the seller ultimately decided to transact in June 2016, we were ready with a competitive bid and we closed the deal within a month at a price that we really liked. The jewel of the deal is a core oil/gas asset, which we believed was materially undervalued given its growth trajectory and market positioning. This asset was written up 28% at June 30, and we anticipate additional valuation increases in following quarters. Given this, our estimated value for this deal at closing is approximately 1.3x purchase cost. In the end, we got this deal because we were close to the assets, close to the GP, and we were able to use our domain expertise to independently value the assets and determine that our purchase price was a larger effective discount to true value than the numbers reflected.

***How do you factor in the cyclical nature and price sensitivity of commodities as you assess opportunities?***

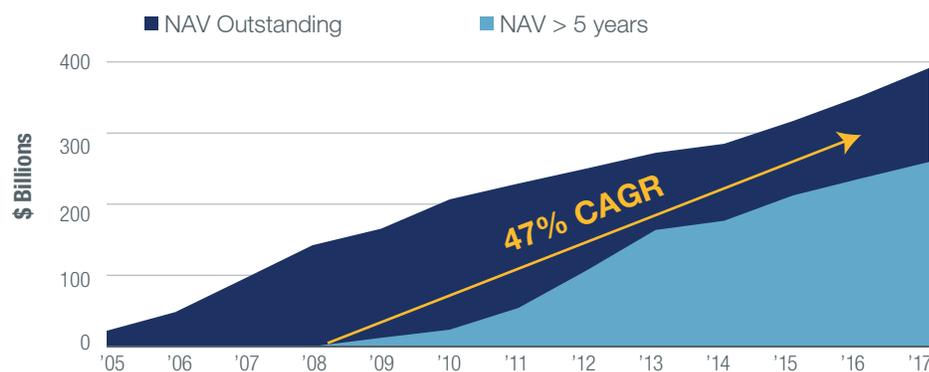
There is a common misconception among investors that the bulk of investment return in an energy or commodities-linked business is generated by price increases.

In actuality, we do not buy anything based on our views of whether prices will go up or down. Rather, we underwrite all of our transactions at prevailing prices and perform thorough diligence and deal structuring to gain confidence that we can meet target returns without commodity price increases. If prices do rise, we are likely to see outperformance compared to our base case, but we view this only as an upside option.

***On average, HarbourVest's real assets team has 15 years' experience investing in this market. Any key lessons learned that inform your approach today?***

One of the primary lessons we've learned is to resist the temptation to go into a sector just because it's getting a lot of buzz. At the end of the day, we are valued for our domain expertise – specifically our ability to understand the inner workings of a complex transaction, and our ability to evaluate and value assets. Complex transactions are fairly new to the real assets market, and GPs are looking for two main traits in a partner – a long pedigree of executing on these types of deals, and a thorough understanding of the underlying businesses in which they're investing. We can check both boxes with confidence.

### REAL ASSETS SECONDARY MARKET OPPORTUNITY



Source: Prequin, Cambridge Associates, Q3 2014 report generated April 22, 2015