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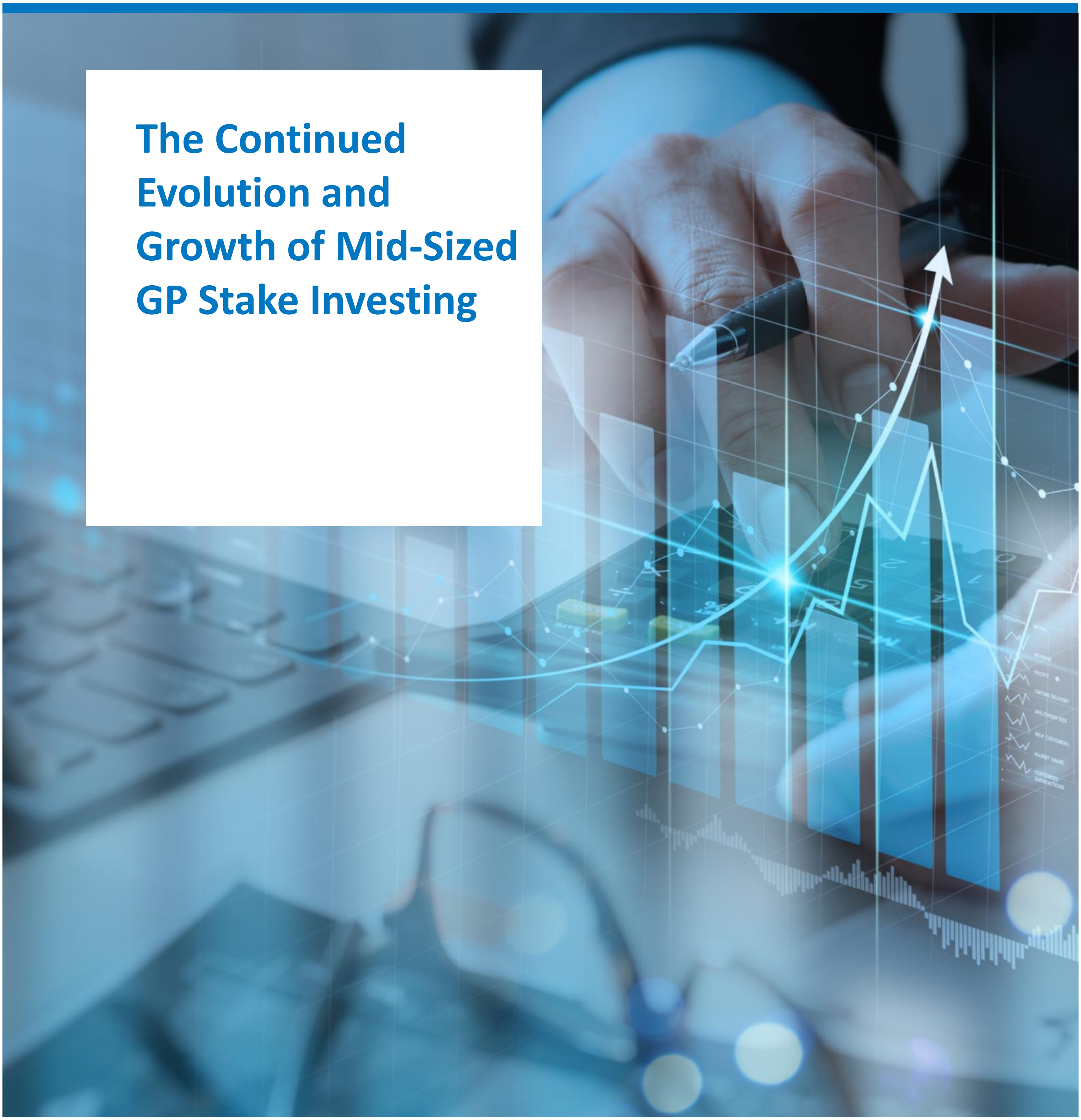
INSIGHTS

October 2023

The Continued Evolution and Growth of Mid-Sized GP Stake Investing



Senior Investment Team

Anthony Maniscalco
Managing Partner,
Head of Investcorp
Strategic Capital Group

Anthony Maniscalco is Managing Partner and Head of Investcorp Strategic Capital Group (SCG), based in New York. Anthony is on SCG's investment team and is Chairperson of its investment committee.

Prior to his current role, Anthony was a Managing Director and Co-Head of Credit Suisse Anteil Capital Partners. Prior to this, he was a Managing Director of the Hedge Fund Solutions business at The Blackstone Group. At Blackstone, he was a founding member and on the investment committee of Blackstone Strategic Capital Holdings, a $3.5 billion private, permanent capital vehicle focused on acquiring minority interests in alternative asset managers.

Prior to Blackstone, Anthony was Head of Alternative Asset Management Banking at Barclays (and its predecessor Lehman Brothers) within its Financial Institutions Group. Prior to this role, he was head of the Media and Telecom vertical within Lehman Brothers' Leveraged Finance Group. Early in his career, he worked at Bank of America and its predecessor Continental Bank in Chicago, focused on high yield, mezzanine, syndicated bank loans, and interim financing products.

Anthony holds a B.S. from Indiana University and an M.B.A. from the University of Chicago.

Tim Osnabrug
Investment Partner,
Investcorp Strategic
Capital Group

Tim Osnabrug is an Investment Partner in the Investcorp Strategic Capital Group, based in New York. Tim is a member of the investment team and is on the investment committee.

Prior to his current role, Tim was a Director at Bridgepoint where he led their US healthcare and business services middle-market private equity investment activities.

Prior to Bridgepoint, Tim worked at KKR for 12 years where he held a variety of roles, most recently as a Director on the Infrastructure Private Equity team in New York. Prior to this role, Tim was a Director in KKR's Americas Private Equity team where he focused on sourcing and executing investment opportunities across Latin America. Tim also had roles in KKR's European buyout team as well as Capstone, KKR's inhouse operations team working with its portfolio companies.

Tim began his career at Goldman Sachs as an investment banker. Tim graduated from the University of Maastricht in The Netherlands with degrees in both Economics and Law.

Weston Wilkinson
Investment Partner,
Investcorp Strategic
Capital Group
(Starting Dec. 2023)

Wes Wilkinson will start as an Investment Partner in the Investcorp Strategic Capital Group in December 2023, and will be based in New York. Wes will be a member of the investment team and will be on the investment committee.

Previously, Wes was the Co-Chief Investment Officer at Azimut Alternative Capital Partners, Azimut Group's GP staking investment business, where he led the Firm's investment team and process.

Prior to that he was a Director at Perella Weinberg Partners, where he was a senior member of the Firm's asset management business.

Previously, Wes was an Associate at Berkshire Global Advisors, where he advised asset and wealth management clients on mergers and acquisitions.

Wes holds a B.A. in Middle Eastern Studies and Economics from the University of London, studying at the London School of Economics and the School of Oriental and African Studies (SOAS).

Joshua Lyons
Vice President,
Investcorp Strategic
Capital Group

Joshua Lyons is a Vice President in the Investcorp Strategic Capital Group, based in New York. Joshua is a member of the investment team.

Joshua joined Investcorp in 2019 as part of the North American Private Equity team, and moved into SCG in 2021.

Prior to joining Investcorp, Joshua worked as a Private Equity Associate at XIO Group in Hong Kong. Prior to his tenure with XIO Group, he was an Investment Banking Analyst in the Mergers & Acquisitions group at J.P. Morgan.

Joshua holds a B.A. in Economics from Cornell University, and an MA in East Asian Studies from Yale University.

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Introduction

This white paper provides an update on SCG's 2020 GP Staking white paper. In our conclusion at the time, we anticipated that GP stake sales would continue to proliferate, especially in the mid-sized space. Since then, mid-sized GP stake sales have indeed surged. This paper highlights the momentum, evolution, and maturation of the GP staking space in recent years. We explain why we believe mid-sized private market firms are favorably positioned in the current market cycle, making them appealing targets for GP staking funds and their limited partners.

Similar to private equity's historical evolution into capitalization segments, there are now distinct GP staking funds targeting investments in large-cap, mid-sized, and emerging manager GPs. This offers limited partners multiple market segments to invest in, broadening their portfolio exposures. Positive sentiment among limited partners towards GP staking as an investment strategy continues to grow, driven in part by favorable investment performance. SCG attributes this to the strategy's blend of current cash income/portfolio yield, capital appreciation, and the rising liquidity and exit precedents. Annual GP staking fund transaction volume and value is consistently rising across various asset classes. Mid-sized GP stakes notably constitute a growing majority of these transactions. GP staking fund liquidity has matured, evident in diverse liquidity events such as individual GP asset sales, GP portfolio sales/listings, and fund liquidity structures (e.g., dividend recapitalizations). Moreover, we believe GP staking funds increasingly employ impactful post-acquisition strategic value creation strategies to generate alpha for their limited partners and support the institutionalization of their GP partners.

SCG believes mid-sized GPs will continue to be attractive investment targets. Private market investment strategies continue to outperform public market equivalents, leading to consistent and increasing allocations from institutional investors. We expect this and the growing opportunity for private markets in the retail and private wealth channel will lead to further global private market AUM growth. Mid-sized GPs display notable resilience in fundraising, deployment/realizations, and investment performance, especially compared to their large-cap peers. Supply and demand dynamics for mid-sized GP stake investing is also highly favorable for GP staking funds, as the number of target GPs who have not yet sold a stake far outpaces GP staking fund dry powder. We believe these trends point to further proliferation of mid-sized GP stake investments, emphasizing diversification across asset classes, geography and value-add potential, and post-investment growth plans.

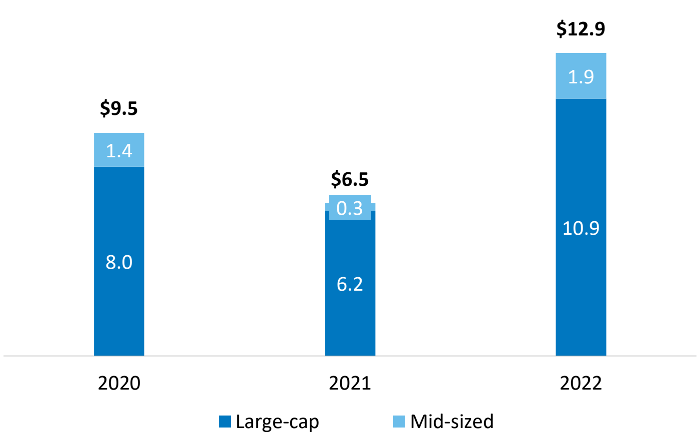
GP Staking Momentum, Evolution & Maturity

GP stake investing continues to evolve as a sub-strategy within private equity. Similar to how private equity buyout investing matured historically, GP stake investing now has an established presence in the large-cap, mid-sized and small-cap/emerging manager segments. This evolution is evident through increased fundraising in multiple areas of the market, favorable limited partner sentiment, increasing transaction volumes, liquidity activity, value-creation and advisor and agent investment in the space.

GP Stake Fundraising & Competitive Landscape

From 2020 to 2022, we estimate that GP staking funds raised roughly $29 billion of committed capital. Importantly, four mid-sized GP staking funds each raised inaugural vehicles north of $500 million in capital commitments. We believe this validates mid-sized GP staking as an institutional investment strategy and is an important milestone, as previously, there were no pools of capital dedicated to investing in mid-sized GPs.

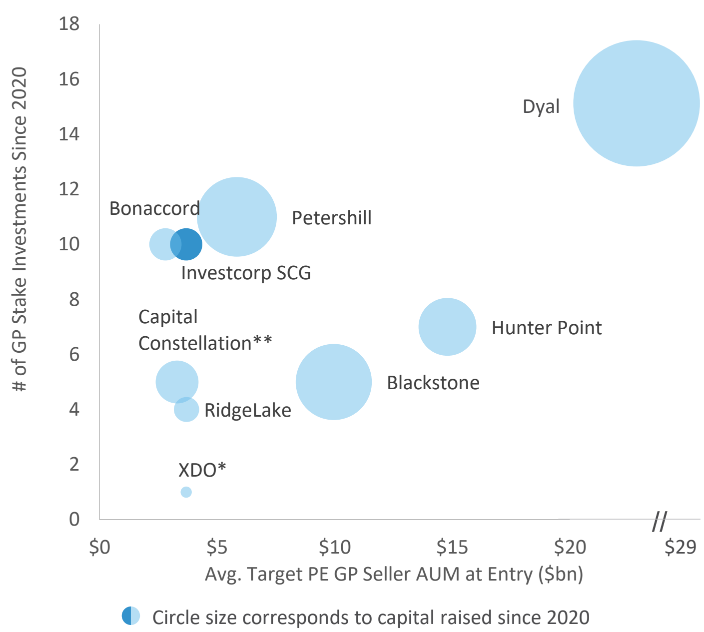
Annual Capital Raised by GP Staking Funds, 2020-2022 ($bn)



Note: Large-cap includes Dyal, Blackstone, Petershill, and Hunter Point; Mid-sized includes Investcorp SCG, Bonaccord, RidgeLake, Capital Constellation and Armen. Capital Constellation makes both GP seeding and GP staking investments, and the above chart assumes one half of capital raised by Capital Constellation is attributable to GP staking. Source: Preqin, Press Releases, SCG, as of August 31, 2023.

At the same time, the overall competitive landscape remains relatively benign, with fewer than ten overall dedicated buyers, driven in large part by continued high barriers to entry. We believe barriers to entry include the need to have deep domain experience, which remains quite limited, and support to withstand a longer than typical fundraising cycle. The latter point is a function of GP staking still being a more nascent strategy, with allocators actively monitoring the maturity of the strategy. These barriers are compounded by the longer than average duration of GP staking funds relative to buyout strategies, in addition to the importance of being able to provide value-added support to partner GPs in addition to capital, with the provision of value-added services typically requiring an institutionalized platform with global scale and a compelling strategic edge in one or several areas. This is analogous to buyout private equity where over the years GPs had to augment their sector expertise and post-acquisition value creation capabilities to generate new deals and better returns.

2023 GP Staking Fund Competitive Landscape



Note: Avg. Target PE GP Seller AUM at Entry is for deals completed since 2020 and is used to show direct comparison between the average size GP each GP staking fund invests in. (*) Xponance Diverse Opportunities is a partnership between Investcorp Strategic Capital Group and Xponance to invest in diverse-owned private capital emerging manager GPs. (**) Capital Constellation makes GP seeding and GP staking investments; above chart assumes one half of historical capital raised is dedicated to GP staking. Source: SCG Proprietary Research as of August 2023; Preqin.

Limited Partner Sentiment Toward GP Staking Strategy & Returns

As limited partner sentiment for GP staking funds has increased, the types and geographies of limited partners investing in GP staking funds has expanded. Insurance, public and corporate pensions, endowments and foundations and HNW/family office limited partners across multiple geographies continue to express positive sentiment toward investing in GP staking funds.

Coller Capital's *September 2022/2023 Global Private Equity Barometer* surveyed 110 global limited partners across a diversified set of investor types and geographies and found that 47% of limited partners currently invest in or are planning to invest in GP staking funds, representing an 11% increase to 2018.

Furthermore, GP staking fund investment performance is performing at or better than allocators' expectations. According to Coller Capital's *Winter 2022/2023 Global Private Equity Barometer* survey, of the limited partners that had invested in GP staking funds, 27% believed performance had exceeded expectations, 64% believed performance was in line with initial expectations and only 9% believed performance was below expectations. We believe this positive view on performance and growing positive sentiment toward GP staking funds is attributed to three primary drivers:

1. **Insulated Cash on Cash Income.** With a private equity industry backdrop of slowing realizations and distributions, GP staking funds' targeted current income is partially insulated from markets by in the ground, contractual management fees. This creates a path to DPI that is not dependent on asset realizations. We estimate most GP staking funds are targeting ranges of 8-12% annual net cash on cash yields, comparable to senior secured private credit strategies.

2. **Economic Exposure to Private Markets Growth.** GP staking funds are one of the few investment offerings that can provide allocators with a way to participate in the growth of private markets as an asset class, a trend they themselves contribute to through increasing allocations to alternatives. With institutional allocators continuing to deploy significant capital in alternatives and increasing alternative penetration in retail and wealth channels, notwithstanding short-term fundraising headwinds in certain channels, SCG expects robust alternative and AUM growth to continue. This expectation is supported by Bain's *Global Private Equity Report 2023* projection that global alternative AUM will grow from $26 trillion in 2022 to $61 trillion in 2032.

3. **Increasing Liquidity Activity.** Liquidity has been a significant area of focus for limited partners evaluating the GP staking space. As GP staking funds have increasingly demonstrated liquidity events from asset-level, portfolio-level and fund-level realizations and structures, limited partner sentiment around this issue has improved. 2022 in particular was a strong year for GP staking fund liquidity, with SCG estimating there were 12 distinct liquidity events.

Limited Partner Sentiment on GPs That Sell Stakes

When a GP sells a stake, it is critically important for the GP's limited partners to understand the transaction's impact on the GP and ultimately their investment performance. One concern that limited partners typically articulate is that a GP stake sale could lead to the GP growing AUM aggressively, often in new investment strategies, potentially to the detriment of existing investment performance. We believe data points to GPs who sell a stake maintaining consistent investment performance after their stake sale across light, modest and significant AUM growth. Adjacent strategies launched typically are synergistic with the GP's core flagship strategies yet are staffed with separate teams, benefiting the firm as whole. As an example of GP's maintaining investment consistency after stake sales, six of the top ten buyout firms in Pitchbook's *Global Manager Performance Score League Tables 2022* have sold a GP stake, as shown below.

Pitchbook Global Manager Performance Score League Tables 2022 – Global Buyout

Rank	Firm	Performance Score	GP Stake Sold?	Year of GP Stake Sale
1	Monomoy Capital Partners	90.1	Yes	2022
2	Clarion Capital Partners	77.7	No	–
3	Hudson Ferry Capital	75.8	No	–
4	The Riverside Company	75.7	Yes	2017
5	Platinum Equity	75.5	Yes	2017
6	Carousel Capital	75.4	No	–
7	Incline Equity Partners	75.0	Yes	2021
8	Thoma Bravo	75.0	No	–
9	Accel-KKR	74.7	Yes	2017
10	Sentinel Capital Partners	74.0	Yes	2021

Source: Pitchbook, as of July 31, 2023. Geography: Global.
Note: Ranking includes 414 buyout fund families.

SCG also believes that GP staking transaction structures have evolved in favor of strong GP/LP alignment, particularly in the mid-sized space. Two major drivers of this evolution are a higher quantum of transaction proceeds used for reinvestment into the business and the creation of structures that ensure generational transition. Recent vintage GP stake transactions rarely involve "cash out" proceeds, with proceeds typically used for growth and reinvestment into the business through outsized GP commitments. To preserve enterprise value, GP staking funds also continue to focus on ensuring generational transition stability within a GP, which ultimately catalyzes continued or improved investment performance on a go-forward basis.

GP Staking Transaction Volume & Deployment Trends

GP staking fund transaction volume has been consistent over the last several years, with a range of 20-25 transactions per annum. While purchase prices are typically not disclosed, assuming 20 investments per annum and an estimated average investment value range of $300-400 million, this translates into ~$6-8 billion of equity capital deployed annually, inclusive of fund equity and co-investment capital.

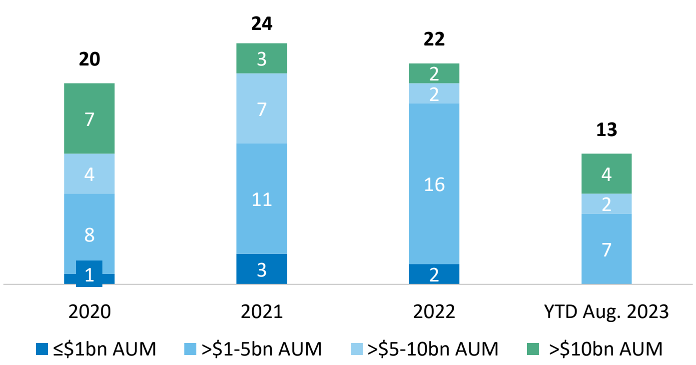
We believe there are four primary trends that will underpin GP stake investing over the next several years:

1. Continued increase in the number of mid-sized GP stake investments;
2. Increasing GP staking fund focus on asset class portfolio diversification driven by the extra layer of potential downside protection across market cycles and the increased ability to monetize portfolios at a possible premium;
3. Continued proliferation of GP stake investing more broadly across private market strategies and asset classes; and
4. Increasing GP staking fund investment penetration into Western Europe paired with reserved expansion into the APAC region.

1. Continued Increase in the Number of Mid-Sized GP Stake Investments

As anticipated in SCG's 2020 white paper, the share of mid-sized GP investments as a percentage of total GP stake investments increased significantly over the last three years. By total number of investments, mid-sized GP stake investments grew from 60% of total GP stake transactions in 2020 to 82% in 2022.

GP Stake Investments, by Target GP AUM at Investment (2020-YTD Aug 2023)



Source: SCG Proprietary Research as of August 31, 2023. Mid-sized defined as GPs with $1 to $10bn of AUM.

Further, the average AUM of all GP target sellers (at the time of the GP stake investment) decreased from ~$11 billion in 2020 to ~$5 billion in 2022, illustrating the increase in mid-sized GP transactions.

2. Increasing GP Staking Fund Focus on Portfolio Diversification

GP staking funds are increasingly focusing on portfolio diversification to create potential downside protection and monetize their portfolios at an arbitrage in which a portfolio is worth more than the individual sum of the parts. Categories of diversification include target GP asset class, investment strategy, geography, sector composition, fund vintage and cash flow stream mix (e.g., NFRE vs. carried interest vs. balance sheet returns). GP staking funds can also maximize strategic value-added resource efficiency with a diversified GP portfolio, particularly as it relates to assistance on distribution, product management and capital introduction services.

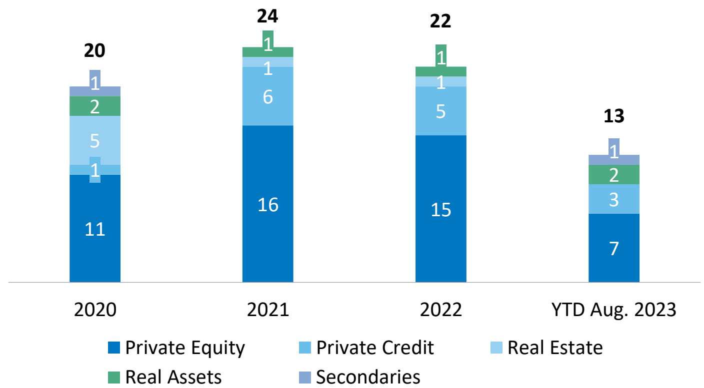
McKinsey's *Global Private Markets Review 2023* illustrates the benefits of asset class diversification – while 2022 North American private equity and real estate fundraising decreased 1.5% and 21.7% year over year, respectively, North American private debt and infrastructure/natural resources fundraising increased 10.5% and 82.4%, respectively, over the same time period. In the same publication, 2022 Global fundraising decreased 11.4% year over year, while North American fundraising increased 2.4% over the same time period.

By creating a diversified portfolio, SCG believes mid-sized GP staking funds can create a risk profile similar to the large-cap space, with the potential for outsized returns given the higher cost of capital targets and lower valuation multiples we believe exist in the mid-cap space.

3. Continued GP Staking Fund Investing Across Private Market Strategies and Asset Classes

Historically, buyout firms have been the most common GP stake target, driven in part by strong fundraising momentum, resilient fee dynamics and significant carried interest potential, which has a positive effect on portfolio yield. While recent GP staking transactions still favor buyout firms, GP staking buyers are increasingly investing in private credit, infrastructure and secondaries GPs. This trend is driven by GP staking fund portfolio diversification targets and growing strategic control buyer interest in building scale across multiple asset classes through acquisitions.

GP Stake Investments, by Asset Class
(2020-August 2023)

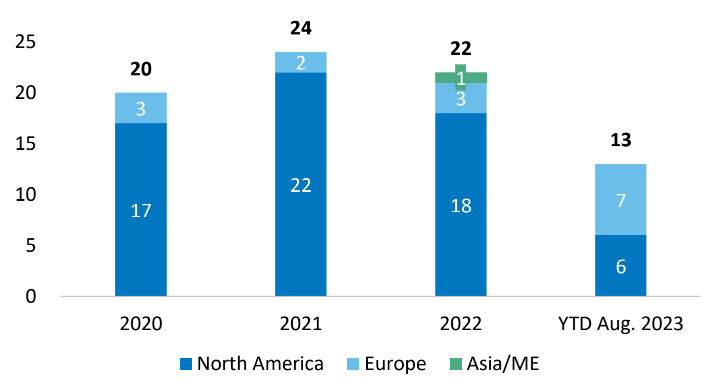


Source: SCG Proprietary Research as of August 31, 2023.

4. Increasing GP Staking Fund Investment Penetration into Western Europe and APAC

US-headquartered GPs have historically comprised the large majority of GP stake sellers. We estimate that US GP stake sellers have accounted for 79% of total GP stake fund investments from 2019-August 2023. While we believe there is significant US white space remaining for GP staking funds (particularly in the mid-sized space), SCG believes there will be an increase in non-US GP stake investments, particularly in Western Europe. We also believe the APAC region is an untapped area where we expect to see transaction volume increase, albeit moderately and cautiously given current geopolitical sensitivities.

GP Stake Investments, by Target GP Domicile
(2020-August 2023)

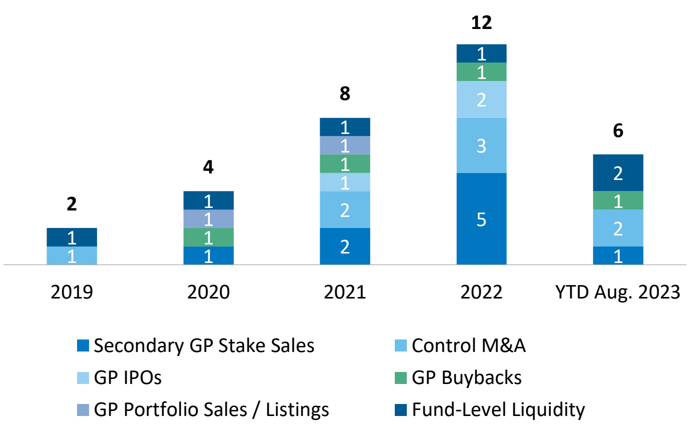


Source: SCG Proprietary Research as of August 31, 2023.

GP Staking Fund Liquidity

Liquidity has been one of the most actively evolving and maturing areas in GP stake investing over the last several years. While current GP staking funds have different fund life terms, ranging from permanent capital vehicles to traditional private equity term funds, liquidity continues to be a critical issue of focus for limited partners and GP staking fund managers, particularly against a backdrop of lower traditional private equity realizations and liquidity. GP staking liquidity continues to grow in velocity and structure, with GP staking funds demonstrating six structural ways to deliver liquidity to their limited partners over the last several years.

GP Stake Liquidity Events, by Type
(January 2019-August 2023)



Source: SCG Proprietary Research, as of August 31, 2023.

1. Secondary GP Stake Sales

Individual GP stakes held by mid-sized GP staking funds have historically been and will continue to be targets for large-cap GP staking funds and strategic buyers to acquire. Mid-sized GPs that grow into the upper mid-sized or large-cap space will become targets for large-cap GP staking funds, which have significant dry powder to invest, and strategic buyers, who have become increasingly opportunistic around using minority transactions to create strategic partnerships. Since 2019, insurance companies, diversified financial services companies, real estate holding companies, and sovereign wealth funds have all acquired secondary GP stakes from an existing GP staking fund. In these transactions, GP staking funds may elect to sell all their economic interests, generating a full realization of an investment, or may elect to partially monetize their economic interests, retaining additional upside in a GP investment that has a new strategic partner that may come with additional value-add capabilities to grow enterprise value.

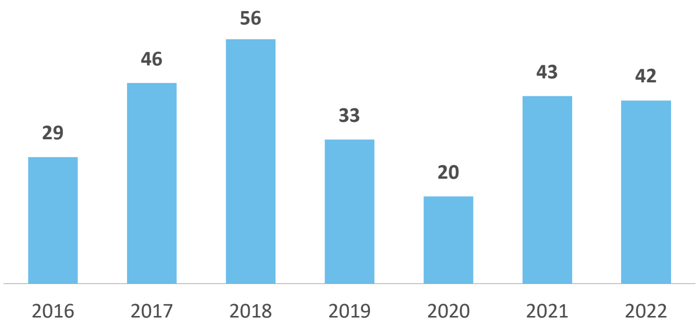
SCG believes secondary GP stake sales will continue to accelerate, particularly with respect to ownership interests in (i) mid-sized GPs that have grown into the upper mid-sized or large-cap spaces, (ii) GPs that have scarcity value in terms of investment strategy, asset class, or geographic presence, and (iii) GPs that can provide a buyer with one or several complementary capabilities in addition to financial returns (e.g., investment know-how in a particular sub-sector that may be accretive for the buyer in other business areas). Furthermore, target GPs that may not want to sell control of their firm at present may instead sell a minority stake to a strategic buyer, with that transaction potentially including a path to a control sale or a broader integration over time.

It should be noted that transferability and GP stake fund buyer liquidity is a negotiated part of any GP stake investment. Typically, a GP stake investment is subject to a lockup period prior to the GP staking fund being able to sell without the GP's consent. This lockup does not preclude a GP staking fund from selling or listing a portfolio of GP stakes. The lockup period is negotiated but is generally in the range of three to seven years. After the expiration of the lockup period, the GP staking fund has general flexibility around selling the stake, although it typically cannot be sold to a direct competitor of the GP or to a buyer that could impair the GP's business from a reputational, regulatory or legal standpoint. In practice, it is important to find the right buyer and the GP staking fund will seek to be transparent with the partner GP on potential acquirers of the stake.

2. Control M&A

Private market GP control M&A volume has increased over the last several years and returned to pre-pandemic levels, particularly in private credit, secondaries/GP solutions, and real assets. Strategic buyers have included diversified alternative asset management firms, traditional asset management firms, real estate holding companies, diversified financial services firms, and insurance companies. Examples of recent notable private market control M&A transactions include TPG's acquisition of Angelo Gordon and Oaktree's acquisition of a controlling interest in 17Capital. SCG has also observed a broadening into strategic acquisitions of monoline private equity firms. Recent examples include EQT's acquisition of Baring Private Equity Asia and Ares' acquisition of Crescent Point Capital.

Control Alternatives M&A Transactions
(2016-2022)



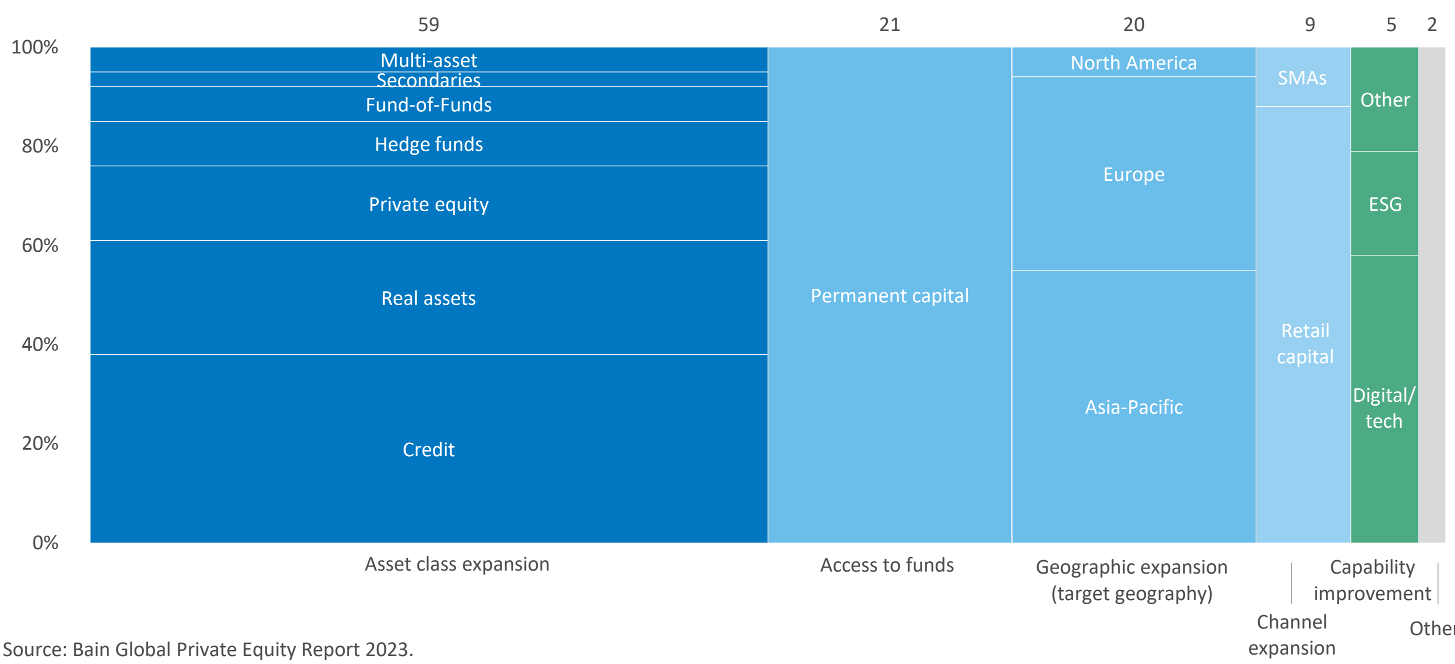
Source: SCG Proprietary Research; Piper Sandler, 2022 Asset & Wealth Manager Transaction Review and 2023 Forecast (March 14, 2023).

In most GP stake investments, GPs possess drag-along rights that entitle them to drag their minority GP stake partner in the event of a control sale. GP staking funds generally seek to negotiate certain protections around the exercise of a drag-along right. These include (i) form of proceeds protections, whereby proceeds paid are required to be marketable securities or cash, and (ii) financial hurdles, where for a period of time after the sale, a drag-along right can only be exercised if the GP staking fund is entitled to a minimum financial return (generally a multiple on invested capital metric but can also be an internal rate of return metric).

We believe that in the near- and medium-term, strategic buyers will be increasingly more likely to acquire than build capabilities, particularly GPs that can provide a strategic acquirer with immediate access to capabilities they do not currently possess. Strategic buyer rationale for alternative asset management M&A continues to be driven by asset class expansion, though increasingly other strategic priorities are becoming important, including access to long-duration capital vehicles, geographic expansion, limited partner channel expansion, and capability improvement. Additionally, there have been several strategic acquisitions that have focused on acquiring investment expertise in a particular sector or sub-sector, providing complementary knowledge to a strategic acquirer's other investment funds and capabilities.

We believe that heightened control M&A is driven by GPs capitalizing on the trend of LPs increasingly looking to concentrate their GP relationships. The latter trend significantly benefits those mid-sized GPs with differentiated investment performance, and those that experienced healthy demand for their flagship strategies now see clear support and opportunity to expand into synergistic product adjacencies. This trend emphasizes however the importance of strong asset selection and underwriting capabilities (ability to pick the winners) and post-acquisition value creation strategies.

Top 50 Alt GPs Strategic Acquisition Purposes
(2012-2022)



Source: Bain Global Private Equity Report 2023.

As control M&A continues to proliferate in the private market and alternatives spaces, SCG believes there will be more GP staking fund liquidity generated from drag-along rights being exercised in control transactions, particularly with mid-sized GP targets given they are easier to finance than large, transformative acquisitions. We believe credit, secondaries/solutions, real assets, PE-sector specialist and APAC-based GPs will be the most likely acquisition targets for buyers

3. GP IPOs

Alternative asset management IPOs have generated liquidity for GP staking fund investments over the last several years. GP IPOs are typically only available to large-cap private market firms with significant scale and diversification across asset classes and geographies. GP staking fund investments are typically subject to a minimum lock-up period (typically six months) after a GP conducts an IPO. This form of liquidity has generally been less active in the last two years due to a challenging equity capital markets window and the increasing scale and diversification required to go public. Alternative asset managers that seek to go public require scale across multiple asset classes and geographies, which has led to an increase in pre-IPO control and minority M&A as firms seek to acquire enough scale and asset class/geographic diversification to list.

SCG expects more alternative asset management IPO activity to occur as the equity capital markets regain their footing, particularly as equity research analysts continue to advance their coverage of alternative asset managers. We expect listed alternative asset managers to continue to focus on public market value-creation initiatives, such as, increasing resilient streams of fee income (e.g., permanent capital), optimizing corporate structures to enable a wider public shareholder base, and continuing to increase reporting transparency and efficiency. SCG believes these initiatives will increase the market performance of public alternative asset managers, which will benefit pre-listing alternative firms seeking to go public.

4. GP Buybacks

GP buybacks are a liquidity solution for GP staking funds in which GPs buy back all or a portion of a stake they have sold to a GP staking fund. The GP buyback can be easier for a mid-sized GP to self-finance as compared to a large-cap GP. GPs typically finance the buyback by raising third-party capital, which is usually in the form of debt, but may also rely on the GPs balance sheet/cash flow, individual partner wealth, or a new common or preferred equity partner. This is in essence a management buyout and can be a compelling solution for a GP to recycle equity to the next generation. SCG believes GP buybacks are likely to be an area of continued innovation, particularly in the mid-cap space, with GP staking funds and GPs together creating bespoke financing solutions. These could include seller financing, converting into a non-dilutive preferred instrument until a financial hurdle is achieved, or cash flow waterfalls.

5. GP Portfolio Sales/Listings

GP staking funds with a diversified portfolio may choose to either sell or list such portfolio with multiple sales and one listing occurring over the last several years. This liquidity structure is generally only available to GP staking funds with diversified GP stake portfolios, with SCG estimating the minimum to be five to seven portfolio investments for a portfolio sale and ten portfolio investments for a portfolio listing. Such transactions can include a full sale/listing of the GP stake portfolio, which can be in the form of a strip sale across each asset in the portfolio, or a partial sale/listing of the GP stake portfolio, with the GP staking fund retaining the remaining economic interests. This can be a compelling opportunity for a strategic buyer (in the case of a portfolio sale) or public market investors (in the case of a listing) to gain access to a diversified GP stake portfolio in a single transaction.

We believe portfolio sales will continue to proliferate, particularly with mid-sized GP staking fund sellers, with strategic buyers and large-cap GP staking funds as potential buyers. We also believe large-cap GP staking funds will pursue portfolio listings when the equity capital markets stabilize and public market investors gain more familiarity with publicly traded vehicles of this nature.

6. Fund-Level Liquidity

Fund-level liquidity has been a common way for GP staking funds to provide investors with liquidity. Over the last several years, multiple GP staking funds have executed fund-level dividend recapitalizations or securitizations, raising debt capital to distribute proceeds to limited partners and enhance DPI. Pricing of fund-level GP staking liquidity is in part dependent on the portfolio yield of the GP staking fund, with higher yields generally driving lower cost of debt financing. Importantly, fund-level liquidity is generally only available to GP staking funds that own a diversified portfolio of GP stake investments, as fund finance providers will actively evaluate fund cash flow and asset diversification as part of their underwriting.

With bankers and fund finance providers actively covering the space, we anticipate GP staking funds will continue to generate liquidity through this structure, even with a backdrop of higher interest rates. We also expect increasing financing competition in this area as the GP stake space and underlying GP stake portfolios continue to mature, which should lower the cost of debt financing, albeit moderately.

GP staking funds may also use continuation vehicles, LP-led secondaries and GP-led secondaries to provide liquidity to limited partners in the future. We believe continuation vehicles and GP-led secondaries will primarily comprise multi-asset portfolios as compared to single assets, primarily due to the ability to aggregate financial and portfolio information with multiple investments. Given the longer duration of GP staking fund terms (ranging from traditional private equity fund terms to permanent capital vehicles), we believe LP-led secondaries will also proliferate.

GP Development & Value-Add Services

In addition to being financial partners, GP staking funds seek to provide their portfolio companies with strategic value-added services. While “version 1.0” focused primarily on providing capital introduction services to GPs, over the last several years, GP staking funds have increasingly augmented their capabilities to provide a more diverse range of value-added services. These services include traditional value-add capabilities such as capital introduction and capital formation, which we believe will always be of critical importance, especially in today’s constrained capital raising environment, but also include soft benefits to the partnership. These soft benefits could include brand validation and access to the buyer’s global footprint as well as value-added advice in areas such as product management, human capital/talent, cybersecurity, AI and application of data science into strategy, ESG/DEI advisory services, and procurement (both at a GP’s portfolio company level and at the GP’s firm level). GP staking funds can provide these services in multiple ways, including through an internal GP development group, an operating partner network, a strategic advisory board, third-party strategic partnerships/joint ventures, or their broader firm platform.

While valuation, cultural fit and the depth of historical relationships are critical considerations for GPs contemplating a GP stake partner, strategic benefits provided by a GP staking fund can also be an important factor in the selection process. SCG believes this factor is even more relevant in mid-sized GP stake investments. While large-cap GPs that sell a GP stake typically have invested significant resources in multiple functional areas, mid-sized GPs are typically at an inflection point, assessing where they may need to grow internally in the future and contrasting what is “nice to have” versus what they “need to have.” At this inflection point, mid-sized GPs often have invested significantly in investment talent and moderately in capital formation but may not have fully formed functional groups and practices in other areas. In this regard, a GP staking fund can provide relevant value-added services and best practices advisory by utilizing their internal GP development group or operating partner network, particularly with respect to product management/strategy, human capital/talent, and DEI/ESG advisory.

Increasing Advisor & Agent Investment in GP Staking

SCG also has observed and monitored advisor and agent coverage of the GP staking space. Since 2020, we have observed that investment banks and placement agents have invested significant resources into building GP staking coverage capabilities. SCG estimates the number of unique investment banks advising on GP staking transactions increased from six in 2020 to thirteen in 2022. Part of this growth is a natural push to capture the growing mid-sized GP staking segment.

While this increased coverage has led to the GP staking space becoming increasingly banked and intermediated, there are several advantages for GP staking funds as advisors increase their activity in the space. First, as more advisors proactively discuss GP stake sale opportunities with GPs, the target universe of GPs who may seek to sell a stake expands, especially as experienced advisors advocate the strategic value-add of different GP staking funds and benefits of a partnership. Even if an advisor is not ultimately hired by a GP to sell a stake, there is an education process as part of this outreach, leading to more sourcing channels and investable opportunities for GP staking funds. Second, having an advisor involved in these limited processes and helping with due diligence can reduce the burden of a transaction on the GP, driving transaction efficiency.

SCG believes that most transactions in which a GP seller has retained an advisor are limited processes with three or fewer GP staking funds involved. This dynamic allows buyers to maintain reasonable pricing discipline given the limited number of GP staking funds in the space and high barrier to entry to participate. Overall, we view increased advisor and agent investment in the GP staking space as further validation that the space has staying power and ample growth on the horizon.

Mid-Sized GP Staking Opportunity

As anticipated in our 2020 white paper, and as demonstrated herein, mid-sized GP stake sales have proliferated by number of transactions over the last three years, taking a larger share of all total GP stake investments. SCG believes the continued proliferation of mid-sized GP stake activity is a result of three trends:

A. Favorable Private Market Performance, Allocation & Growth Trends

B. Mid-Sized GP Fundraising Resiliency & Outperformance Over Large-Cap

C. Favorable Supply/Demand Dynamics for Mid-Sized Focused GP Staking Funds

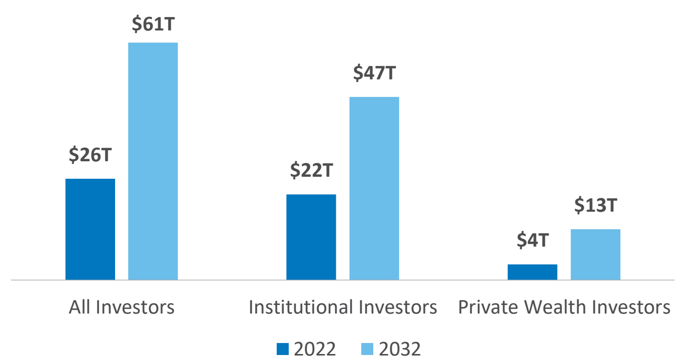
A. Favorable Private Market Performance, Allocation & Growth Trends

SCG expects private market investments will continue to be an important part of allocator portfolios, largely as a result of their consistent outperformance over public market equivalents. As shown below in Hamilton Lane's *2023 Market Update*, over the last fifteen years, private markets have outperformed and had higher Sharpe ratios than public market equivalents in private equity, private credit, infrastructure, and natural resources, with private real estate lagging its public market equivalent by less than a percentage point.

While a sizable portion of allocators were faced with a denominator effect over the last year, which has had a pausing effect on private markets fundraising in certain channels, allocator sentiment continues to favor private markets. We expect continued limited partner private market allocation will drive future fundraising stability and AUM growth, which is an important driver of GP stake investment returns.

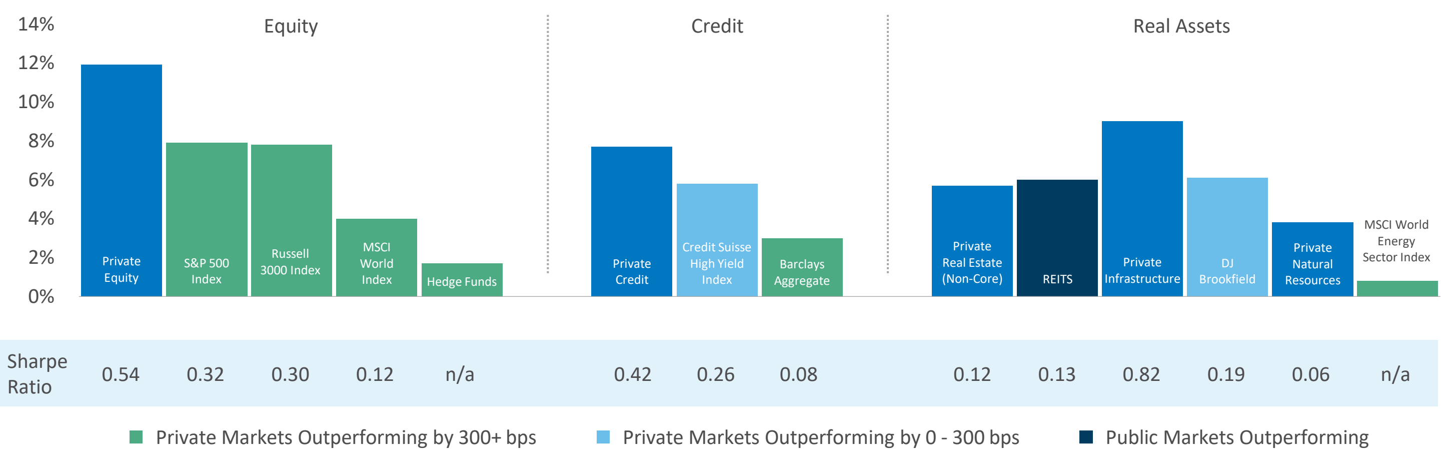
Bain's Global Private Equity Report 2023 predicts global alternatives assets under management will grow from $26 trillion in 2022 to $61 trillion in 2032. Importantly, while institutional investors are the bulk of capital in private markets today and are expected to contribute to the majority of the growth in private markets AUM, private wealth investors and the retail channel broadly is expected to grow meaningfully, providing an additional and complementary growth channel.

Estimated 2022-2032 Global Alternatives AUM Growth, by Investor Channel



Source: Bain Global Private Equity Report 2023.

15 Year Private Market Performance vs. Public Market Equivalents
(As of Q3 2022)



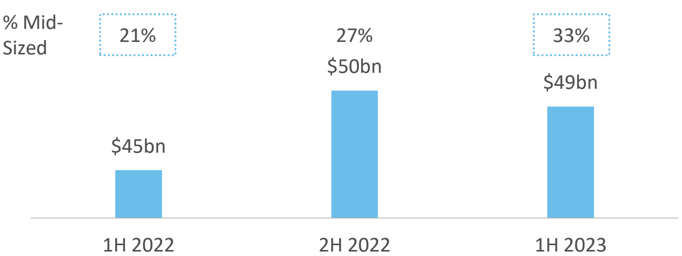
Source: Hamilton Lane 2023 Market Update. Represents annualized time-weighted performance.

B. Mid-Sized GP Fundraising Resiliency & Outperformance Over Large-Cap

Mid-sized GPs continue to show significant resilience across fundraising, deployment and realizations, and investment performance. SCG believes mid-sized GPs are attractive investment targets in today's market cycle, as these firms have shown more fundraising resiliency than large-cap peers in most asset classes and geographies. Mid-sized GPs have also outperformed large-cap private equity GPs over the last fifteen years. Finally, we believe mid-sized GPs are better positioned to deploy capital on favorable terms and exit investments in the current market cycle relative to their large-cap competitors, particularly in private equity investment strategies.

According to Pitchbook's *Q1 2023 US PE Middle Market Report*, more US mid-sized private equity capital was raised in the first half of 2023 than the first half of 2022, indicating limited partners are supportive of mid-sized private equity GPs.

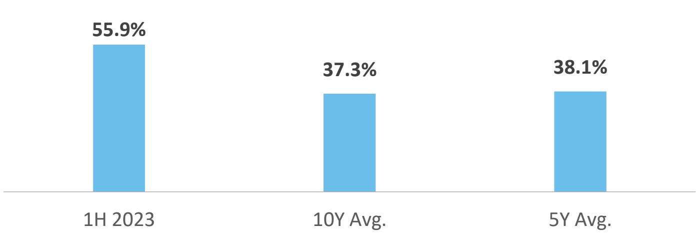
North America Mid-Sized Buyout Capital Raised and as % of Total North America Buyout Capital Raised



Source: Pitchbook Q1 2023 US PE Middle Market Report; McKinsey Global Private Markets Review 2023.

Importantly, in Q1 2023, US mid-sized buyout fund closings represented a majority of total US buyout fund closings, highlighting the resiliency of mid-sized private equity fundraising.

US PE Mid-Sized Fund Closings as a Percentage of All US PE Fund Closings

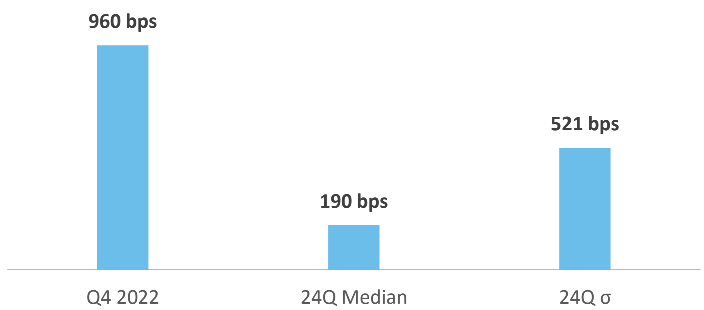


Source: Pitchbook Q1 2023 US PE Middle Market Report; McKinsey Global Private Markets Review 2023.

GP partner investment performance is a critically important component of GP staking fund returns, as it drives the quantum of carried interest realizations and balance sheet returns and has a direct correlation on future fundraising success. According to Hamilton Lane's *2023 Market Overview*, calculating annual pooled IRR by vintage year, US SMID private equity GPs outperformed US Large Cap/Mega Fund private equity GPs in 12 out of 18 total years tracked, doing so with a lower standard deviation.

As an alternative data source, through examining Pitchbook data, SCG found that in Q4 2022, mid-sized private equity GPs had a significant outperformance spread over their large-cap competitors.

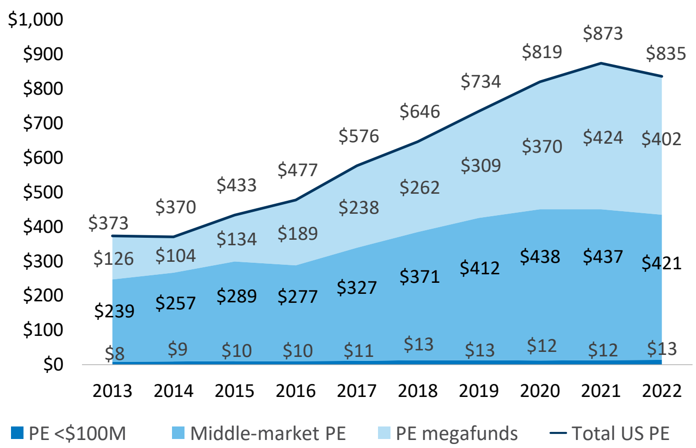
US Mid-Sized PE IRR Outperformance Over Large-Cap PE[1]



Source: Pitchbook, as of June 30, 2023.
[1] Denotes quarterly rolling one-year fund Net IRR.

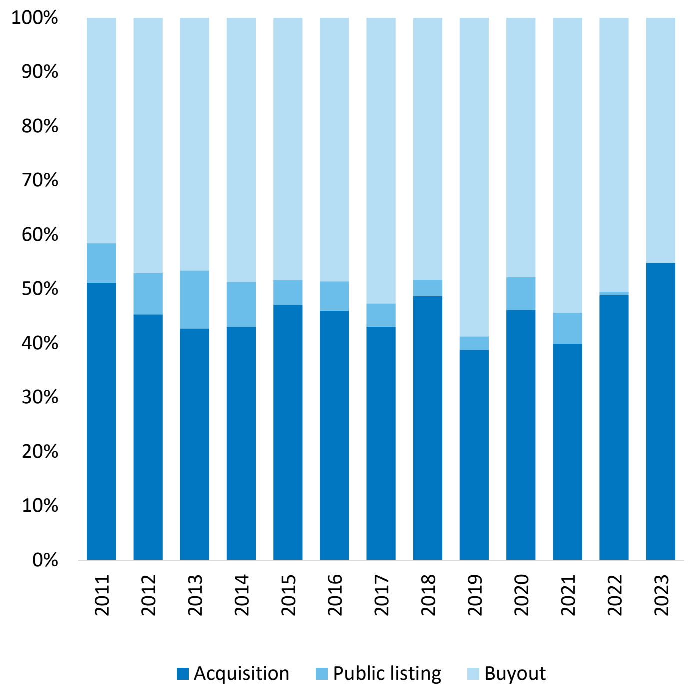
SCG expects mid-sized GP outperformance over large-cap peers to continue in light of favorable entry and exit dynamics in the current market cycle. As indicated below, mid-sized GPs have significant dry powder available to take advantage of investable opportunities over the next several years:

US Private Equity Dry Powder, by Size Cap
(2013-2022) ($bn)



Source: Pitchbook, as of Q4 2022.

Share of US PE Mid-Sized Exit Value, by Type of Exit



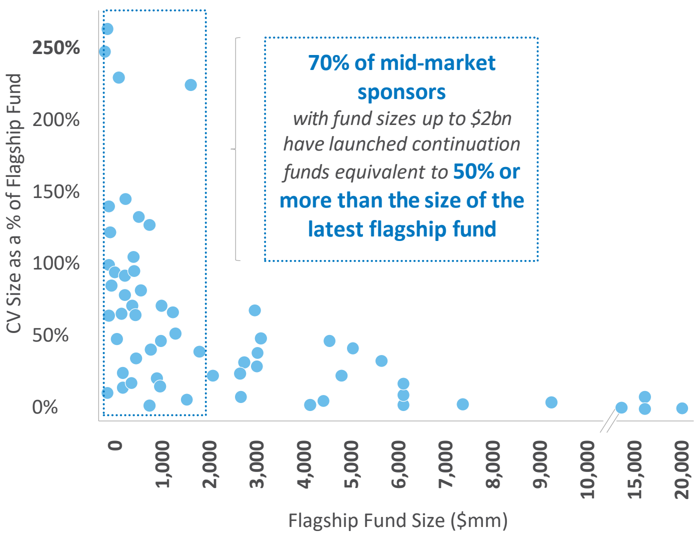
Source: Pitchbook, as of June 30, 2023.

SCG believes mid-sized GPs with dry powder will have a unique opportunity to take advantage of an uptick in founder-owned businesses looking to sell to private equity and receive first time institutional capital. According to Pitchbook, in Q1 2023, US transactions involving non-backed sellers increased to an all-time high of 61.5% of all transactions, up from 53.8% in the fourth quarter of 2020. Over the same time period, companies owned by their founders represented 43.5% of the value of all deals, up from 31.3% three years prior. Founder-owned businesses looking inward during the pandemic are actively selling in 2023. Founder owned, first-time institutional capital businesses can be particularly attractive targets for mid-sized GPs due to lower levels of leverage and significant value creation opportunities available.

With respect to exits, we anticipate mid-sized GPs will continue to actively sell to both other sponsors and strategics. With less reliance on public listings in a difficult equity capital market window relative to large-cap competitors, significant dry powder available, and increasing strategic M&A activity, we believe the exit profile in the next several years will be similar to the historical segmentation shown herein.

SCG also believes that the secondary market is an effective way for mid-sized GPs to provide liquidity to their limited partners. According to Lazard's *Interim Secondary Market Report 2023*, global secondaries volume reached $43 billion in the first half of 2023 and dedicated secondary dry powder peaked at $159 billion at the end of June 2023. Single- and multi-asset continuation funds continue to represent the large majority of secondary transaction volume, with GP-led secondary transactions representing an average range of 40-50% from 2020 to 2022. While traditional LP-led secondaries may favor large-cap GP funds, we believe secondary investors will continue to be interested in mid-sized GP-led transactions, supported by favorable trends in the mid-cap space. As shown below, mid-sized GPs are raising sizeable single and multi-asset continuation vehicles.

1H 2023 Continuation Funds: Size as a Percentage of GP's Latest Flagship Fund



Source: Lazard, Interim Secondary Market Report 2023.

C. Attractive Mid-Sized GP Stake Supply/Demand Dynamics

On the demand side (e.g., GP stake fund investable capital), over the last three years we estimate five GP staking firms have closed on ~$3.7 billion of committed capital to invest in mid-sized GPs[1]. If we assume these existing funds have 25% of dry powder remaining and these firms close on a similar amount of committed capital in 2023 and 2024, this represents ~$4.6 billion of committed capital for the 2023, 2024 and 2025 mid-sized GP staking fund vintages. Assuming each fund uses 75% fund equity and 25% co-investment per investment and reserves 10% of fund commitments for fees, expenses and follow-on investments, with no recycling of capital, this equates to approximately ~$5.2 billion of investable mid-sized GP staking fund capital over the next several years.

This is contrasted with the supply side (e.g., mid-sized GPs to acquire stakes in), in which we estimate there are currently ~740 private market mid-sized GPs in North America and Western Europe with a cumulative ~$2.9 trillion in total assets under management that have not sold a stake[2]. With an estimated average mid-sized GP stake purchase price of $150 million, this indicates a total addressable market of $111 billion of mid-sized GP transaction volume available in North America and Western Europe, representing slightly more than twenty-one dollars of supply available for every one dollar of demand.

SCG estimates the supply side will continue to expand when looking to the future, even accounting for increased mid-sized GP stake investment activity. Assuming ~15 mid-sized GPs sell a stake, and another 10 GPs grow out of the middle-market each year, we believe a similar or greater number of sub $1 billion AUM firms will grow into the mid-cap AUM size range and become mid-sized GP targets. These positive net inflows further augment SCG's core belief that the supply/demand dynamics of the mid-sized GP staking strategy are currently favorable and will continue to be so in the coming years.

We also believe industry growth, equity recycling capital needs, increasing business complexity and growing capital / GP commitment requirements will drive accelerated GP stake sales within the investable mid-sized GP universe. IPOs are only available to the largest private market firms. Control sales result in management's loss of control and equity to incentivize their personnel. Preferred equity investments deliver capital and allow management to retain control of the business, but do not provide any strategic support and apply synthetic leverage to the business. GP stake sales pair capital with strategic value-added support while allowing GPs to retain operational control and the full range of longer-term strategic options.

GP Stake Sale Drivers

1 Fund and Accelerate GP Growth

Boost GP commitments	**Capital to seed new products**	**Industry consolidation**

2 Business Strategy Management

Talent retention mechanisms	**Strategic distribution deals**	**GP valuation trajectory**

3 Manage Ownership Liquidity

Succession management	**Legacy sponsor replacement**	**Partial liquidity for team**

[1] Estimated using Preqin data as of August 31, 2023.
[2] Estimated using Pitchbook data as of August 31, 2023.

Conclusion

GP staking today is at an interesting stage in its growth and evolution. In 2010, many large-cap GPs and the vast majority of mid-sized GPs could not raise external GP capital, as the market was highly illiquid and there were very few investors in the space. As a result, growth capital initiatives, succession planning and increasing skin in the game via outsized GP commitments were challenging endeavors to finance. Today, with dedicated pools of GP staking capital available, and buyers specializing in different strategic value-added services, GPs have increased optionality in the way they address strategic growth and firm development initiatives.

SCG anticipates that mid-sized GP staking investments will continue to proliferate and increase as an overall percentage of total GP staking volume and value. We believe supply (e.g., target GPs) will outpace demand (e.g., GP staking funds) in the short term, with 2023 mid-sized GP staking transactions flat year over year. Supply will continue to remain strong as a result of continued maturation into the space and GP stake sale drivers increasingly resonating with GPs who are looking for value-added strategic partners. Importantly, we anticipate GP staking funds with strong value-added capabilities and deep relationships will continue to be the partners of choice for mid-sized GPs selling a stake. We believe these dynamics will lead to a meaningful increase in mid-sized GP staking transactions in 2024 and 2025 as GP staking funds raise additional capital.

We also expect GP staking fund liquidity events to accelerate, driven by increased GP staking fund diversification targets, strategic buyer control M&A and GP consolidation trends. Further, GP staking fund liquidity events will accelerate future GP staking fundraising efforts, supplying additional capital to GP staking funds to match the robust target addressable market.

Mid-sized GPs will continue to remain attractive targets as they have displayed fundraising resiliency and outperformance over large-cap peers. Furthermore, mid-sized GPs with strong historical performance across market cycles and current dry powder will also be attractive targets for GP staking funds because of the opportunity to capitalize on favorable current mid-cap industry dynamics driving this vintage of investment funds. As GP consolidation trends accelerate, mid-sized GPs with strategic, complementary adjacency investment strategy opportunities will also be attractive GP staking fund investment opportunities.

Overall, we remain highly optimistic about the continued growth and development of the mid-sized segment of the GP staking space.

About Investcorp Strategic Capital Group

Investcorp Strategic Capital Group (SCG) is a leading investor in the rapidly growing mid-size GP staking space and manages $1.3bn in AUM. Our New York-based team partners with best-in-class private market GPs who have the resources and infrastructure to attract and retain top-tier talent, forge lasting relationships with large, sophisticated limited partners, and build lasting businesses. SCG has partnered with 11 high-quality GPs diversified across investment strategies, asset classes, geographies, and underlying fund vintages.

The Strategic Capital Group is comprised of seasoned professionals with a successful history of working together and broad experience originating, structuring, and executing transactions across alternative asset management GPs, including proprietary minority stakes. The team has experience investing as limited partners, owning and operating GPs, in direct private equity investing, and working with GPs on strategy, business development and capital formation. SCG is further supported by a cohesive network of operating partners, an advisory board, and strategic partnerships with Finback Investment Partners, an advisory and merchant banking firm led by former Governor Jeb Bush, and Xponance, an asset management and investment firm founded by Tina Williams focused on emerging manager strategies. SCG is also supported by Mercury Capital Advisors, a wholly-owned subsidiary of Investcorp, to provide capital raising advisory and support to partner GPs.

SCG is sponsored by Investcorp, a leading global alternative asset manager with an unwavering focus on private, mid-market investing. Founded in 1982, Investcorp currently manages $48bn AUM[1] and has completed $80bn in transaction volume since inception[1]. Furthermore, Investcorp employs over 500 people across 12 different countries, including offices in New York, London, Bahrain, Abu Dhabi, Riyadh, Doha, Mumbai, and Singapore.

[1] As of June 30, 2023.

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