Proskauer

Private Market Talks:

Scoping Out Secondaries with Portfolio Advisors' Liz Campbell

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In this episode, we are thrilled to be joined by Liz Campbell, Chief Investment Officer at Portfolio Advisors, a global private asset manager specializing in the US middle market. Together with its parent company FS Investments, Portfolio Advisors manages over $82 billion in assets, giving Liz unparalleled insights into today’s private market landscape.

During this episode, we take a deep dive into the secondaries market and the major forces driving its explosive growth. We talk about the pros and cons of continuation funds and the dynamic evolution of secondaries into new sectors. To close, we get Liz’s perspective on what makes a great CIO. Tune in for an in-depth, expert view on private markets and the future of secondaries!

Peter Antoszyk: Welcome back to Private Market Talks, a Proskauer Podcast. I’m your host, Peter Antoszyk. Today, I’m speaking with Liz Campbell. Liz is the chief investment officer of Portfolio Advisors, a subsidiary of FS Investments. Portfolio Advisors is a global private asset manager specializing in the US middle market. Together with FS Investments, it manages over $82 billion in assets. It has over 600 employees across offices in the US, Europe and Asia, with headquarters in Philadelphia and Darien, CT. As a member of the firm’s management committee, Liz shares oversight of the firm’s strategy, and as CIO, she oversees the firm’s investment activities across private equity, private credit and private real estate.

We’re going to talk about the secondaries market today, which has grown from approximately $500 million in transaction value in the early 2000’s to over $140 billion by the end of this year. And during my conversation with Liz, we take a deep dive into this exploding market. We discuss what has driven its growth and look at some of the emerging trends. We also discuss what the future of the secondaries market might look like. As with all episodes, you can get a copy of the full transcript of this episode and other helpful information at privatemarkettalks.com. And if you like this episode, drop us a note. We’d love to hear from you. And now, my conversation with Liz Campbell of Portfolio Advisors. Liz, welcome to Private Market Talks.

Liz Campbell: Thanks, Peter. Great to be here.

Peter Antoszyk: Liz, I have to say, I’m really excited to speak with you. I think, as you and I have discussed, my background is generally private credit. Secondaries is not my forte, but as I was preparing for this — sort of like when you start thinking about buying a particular car, you see that car all over the place you never saw before. Well, now I’m reading and seeing about secondaries. And even though Proskauer has a market-leading secondaries practice, it’s not something that I have particularly focused on. And given its explosive growth, it has really caught my attention. So, I’m excited to talk to you and learn a lot more about this area.

Liz Campbell: Yeah. Excited to talk about it, Peter. It’s one of the hot topics of the day. Secondaries have been around for a long time, and there’s a long history of good returns. Excited to get into it.

Peter Antoszyk: Let’s level set for a minute first, because while most of our — if not all of our — listeners are sophisticated investors, I think it’s worth just laying the groundwork. Let’s talk about, “What are secondaries?” and what flavors they come in. And then, we can get into what the drivers are and the evolution and what’s emerging.

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Liz Campbell: Sure. At the highest level, a secondaries transaction is opposed to a primaries investment. A primaries investment is investing in an asset or a fund for the first time. A secondaries transaction is investing in an existing asset or an existing fund. And these can take a variety of different shapes and forms. The most common thing that people talk about when they talk about secondaries is an LP secondaries transaction within private equity. So private equity is in a liquid asset class. Typically, when you invest in a private equity fund, your capital is locked up for 10 years. There's a five-year investment period and then a five-year harvest period for exiting those investments. You can't get liquidity during those 10 years. Secondaries emerged as a way for investors to sell their stakes in existing private equity funds and get out in the interim period. So, they were a solution for investors to generate liquidity. That's on the, what we call, the limited partner, or the LP side. There's also been the emergence over the last 10 to 15 years of what are called GP-led transactions. This is when a GP or private equity firm initiates the secondaries transaction themselves. The topic of the day is continuation vehicles, which you may have heard of. These can be multi-asset or single-asset transactions where a private equity firm has held an investment for a long time. It's owned a portfolio company for a long time, and they see continued upside in it, but the fund is nearing the end of its 10 years, and they want to continue to own that asset. So, they will give investors the option to roll into a new vehicle with that asset or to cash out or get liquidity.

Peter Antoszyk: Before I get into that — because, as I said in the introduction, it has experienced explosive growth, and I'd like to get behind what's driving that — can you describe for our listeners Portfolio Advisors' platform for secondaries? Just to give a sense of your perspective.

Liz Campbell: Our secondaries platform started almost 25 years ago. We started out investing in private equity funds about 30 years ago. And seven, eight years after we started investing in those funds, we started to see private equity firms coming to us, saying, "We've got an investor who's looking for liquidity. You guys know our portfolio. You know us as well as anybody. Would you be interested in acquiring their interests in the fund?"

So that’s how our secondaries practice emerged. It was primarily focused on LP transactions early on, and it grew from there, starting in 2002. We also have pursued GP-led transactions for the past 12, 13 years as well, so we’re active on both sides of that.

Peter Antoszyk: Can you describe the volume and the transaction value that you’re managing?

Liz Campbell: It’s crazy how quickly, how explosive, the growth has been within the market. 20 years ago, we were doing a handful of transactions a year. Today, we’ve seen billions of dollars of transaction volume. We’ll probably deploy a little over a billion. We are highly selective. We’re focused on the middle market and highly selective in the assets that we go after, but the total transaction volume, as you referenced, is triple digit billions overall, and the opportunity set is enormous. There’s about 3 trillion of unrealized value just in buyout portfolios alone today, so it’s multiples larger than it was even five years ago.

Peter Antoszyk: Can you talk about, a little bit, what has been the drivers of growth in the secondaries market of late?

Liz Campbell: At the simplest level, the growth has been driven just by the growth and the maturation of the private equity industry itself. So, you think about 20 years ago, there weren’t half as many funds in NAV or unrealized value in the private equity industry as there is today. So, part of that’s just the continued maturation of private equity.

Today, in particular, that growth has been fueled by general market dynamics. We’re on track this year within private equity for the lowest level of exit activity in the past five years at least, and so that lack of exit activity has led to pent-up demand among investors and GPs for exits. For a way to generate liquidity. And so, part of that is just the general lack of exits in the market. Whenever there’s volatility in the private equity industry, that leads to more activity within secondaries overall. And then, lastly, I would say, just growing sophistication within the investor market. A lot of institutional investors have embraced secondaries as a way to more actively manage their portfolio.

Whether it’s rebalancing portfolios to just dealing with the administrative burden as your portfolio gets bigger, you’ll have many funds that are approaching the end of their 10-year life, or maybe even older than that, that are still paying management fees. It’s a way to shed those assets and focus on the funds that have more room to run overall. And then, in some situations, say there’s a new CIO who comes in, and he wants to limit exposure or reduce exposure to certain funds and deploy that new liquidity to new funds or to new sponsors. Some of that is just desire and preferences among the team that’s managing the portfolio.

Peter Antoszyk: So, there’s become a greater acceptance of the utilization of secondaries for portfolio management.

Liz Campbell: Exactly.

Peter Antoszyk: Got it. And in terms of the exit activity, I think we’ve talked quite a bit on this podcast about the M&A activity that has been suppressed for the last year or more, and there has been a general trend of going public to private. And so, the lack of IPO activity has suppressed exit activity.

Liz Campbell: Yes, exactly. And we’ve seen green shoots within the overall exit activity. We’ve seen more strategic transactions getting done. There’s a lot of dry powder at the upper end of the market that needs to get deployed in the near future. And so, we’re seeing some exit activity pick up, but even so, you think about that $3.2 trillion number of unrealized value. Over half of that is over four years old in those portfolios, and so there’s just a lot of unrealized value that needs to get realized to get turned into liquidity at some point. Even if exits pick up, we still expect secondary volume to continue to be really strong, just given the growth of the overall market.

Peter Antoszyk: I think one of the other things you mentioned — and I think this dovetails with the use of continuation funds as a form of an exit, because there is a lifetime to the hold for PE funds, for portfolio companies, and I would venture to guess it’s typically been somewhere around five years. It’s been getting elongated for sure, but can you talk about how the use of continuation funds has allowed the private equity funds to manage the holding of those portfolio companies for longer and to perhaps recapitalize them, etc.?

Liz Campbell: I think it's a good evolution within private equity. We've seen this before, where private equity sponsors have held on to assets for a long period of time, but if they're continuing to compound at really attractive growth rates, there's a reason for them to hold on to the assets for as long as they are. They know the assets better than anybody else, so the rationale is, "Why give up that continued upside and sell to somebody else who doesn't know the assets as well?"

The best example of that that's kind of the industry standard for continuation vehicle is Hellman & Friedman and Kronos. It was an HR software company. They originally bought that company in 2007 or 2008 for less than $2 billion, owned it for 10 years. The fund was approaching the end of its life. They saw significant continued upside and so did their investors, so they approached their investors said, "If you want liquidity, you've got the option to take it, or you can roll into this new vehicle alongside us and stay in and capitalize on that upside."

Two years after doing that, they merged Kronos with another company for a total valuation of $22 billion. That was a great outcome for Hellman & Friedman, as well as for investors, but it also gave investors the option, as some investors thought, "Been in this fund for 10 years, so I want the liquidity."

So, that's a great example of how these GP-led secondaries and continuation vehicles, specifically, are a great development for the industry and give investors the option for liquidity, but also the option to continue to generate strong returns overall.

Peter Antoszyk: I think, also, under current market conditions — particularly over the last few years, where valuations of companies are perhaps a little uncertain in terms of what the exit might look like, so the use of the continuation fund extends that runway to allow the private equity fund to really continue to capitalize the portfolio company, develop it and put it to market, when perhaps there are more favorable conditions?

Liz Campbell: Absolutely. And we, as an investor in private equity funds, if a sponsor owns an asset that's performing really well, and there's continued upside, and they can't get the valuation that they and we think they deserve, then we don't want them to be forced sellers. Because, say it's the end of the fund's life. So, it's a great point. It's a good, healthy development, I think, within the industry.

Peter Antoszyk: Let’s talk about some of the developments in the industry beyond continuation funds. What would you describe are some of the more emerging trends in the industry?

Liz Campbell: I think you’ve seen discontinued specialization within secondaries. Clearly, we’ve talked about transaction types, LP and GP-led, but as other illiquid private markets have grown, asset classes have grown, secondaries markets have evolved from those as well. So, credit secondaries is a big area of focus today. We’ve been investing in credit secondaries for about 12 years at this point.

Peter Antoszyk: Just to pause on that, when you’re saying “credit secondaries,” what you’re referring to is — there has been explosion in the private credit industry, and what is starting to emerge in the private credit industry, which is pretty well-developed in the private equity industry, are secondaries of private credit LP interest.

Liz Campbell: Exactly. It’s started to follow the trajectory of private equities secondaries. Generally speaking, private credit has been about a decade behind private equity. As the private credit market has grown significantly and taken up greater share of financing than the banks historically have, there are more opportunities for secondaries than private credit funds. And so, 12 years ago, when we started our credit secondaries strategy, there was less than 500 billion in AUM within private credit. Today, it’s approaching $2 trillion, so just a much larger supply of private credit funds. The credit secondaries market itself was tiny. It was less than a billion dollars of supply. That’s grown over 12 years. It’s grown by about 30x that, so it’s about 25 billion today, and it’s projected to be about 50 billion by 2027, so huge explosive growth, and I think also a good development within private credit for investors who want liquidity.

Peter Antoszyk: What are some other emerging trends that you might identify?

Liz Campbell: One of the, the trends that we talk about a lot within our team is the evolution or the growth of evergreen funds within the secondaries markets. Just as everybody’s talking about secondaries today, it seems like everybody’s talking about evergreen funds, as opposed to the traditional closed-end drawdown vehicles. It’s been a big area focus for what we call retail investors or the wealth channel. A lot of these structures provide more liquidity than a typical drawdown fund.

Peter Antoszyk: Can you just describe for our listeners what you mean by an evergreen fund?

Liz Campbell: Sure. An evergreen fund is an open-ended fund where an investor can commit, in day one, their capital. With the closed-end fund, you're committing to a blind pool. With an evergreen fund, you're typically committing to a portfolio that has existing assets in it, and it's open ended, so it doesn't have a 10-year fund life overall.

Peter Antoszyk: Doesn't have end-of-life.

Liz Campbell: Yes. And you can typically get liquidity, depending on the structure, on say, a quarterly basis. You're able to sell some portion of your commitment to that fund.

Peter Antoszyk: You can effectively have a certain amount of redemption subject to certain gates limitations.

Liz Campbell: Exactly. So, a lot of these evergreen funds are focused either exclusively on secondaries or a majority on secondaries, which is, "Just infuse more capital into the industry." There's so much supply out there, we're not concerned about that supply-demand imbalance, but it has, we think, affected pricing somewhat within secondaries.

Peter Antoszyk: How so?

Liz Campbell: Pricing has gone up, for sure, this year for quality assets, and so it's interesting. In 2022, as interest rates started to increase, there was not a whole lot of secondary volume relative to 2021, and that was, I think, in part because pricing dropped so significantly, so transactions just weren't getting done. We've seen pricing increase quite a bit this year, and we think that's just driven by the fundraising that's happened. For us, we're focused on, typically, rather than really large portfolios, we like to carve out assets or funds of bigger portfolios that we know really well, where we've got a relationship with the sponsor. So, there's less pressure to deploy. We think there has been some pressure to deploy, particularly when vehicles don't have an incentive fee, what we call "carried interest" on performance. We worry a little bit that that's created the wrong incentives. It's created incentive to deploy capital quickly.

Peter Antoszyk: Can you expand on that point a little bit and, and just put a finer point on it?

Liz Campbell: Carried interest, or an incentive fee, is a feature of private equity funds, where the sponsor or the GP of that fund is entitled to a portion of the profits when it realizes or exits an investment above a certain hurdle rate, above a certain threshold of return. When you don’t have that, and you’re charging a fee on committed capital, there’s more of an incentive to deploy capital without focusing on what the ultimate performance is. So, we’ve seen some pressure to deploy, which we think has led to an increase in pricing overall. For us, we’re investing at an average of about 80% of par, so about a 20% discount. But for really good assets, we’re seeing a lot of those trades for 95% of par, or a 5% discount.

Peter Antoszyk: Wow. That’s a huge difference.

Liz Campbell: It is an interesting development.

Peter Antoszyk: What about co-investments by LPs? Is that another source of, of capitalization for secondaries?

Liz Campbell: Co-investments in secondaries transactions?

Peter Antoszyk: Yes. How much demand are you getting from LPs?

Liz Campbell: A lot of demand for co-investments alongside secondaries, which we welcome with our larger investments. We’ve kept our fund sizes relatively small, just due to our focus on the middle market and, and more of these carve out transactions.

But lots of times, there will be a larger investment that, in our view, is too large from a portfolio construction standpoint. And so, we’ve got a ton of demand from our fund investors to participate alongside us in those transactions, which is great for us.

Peter Antoszyk: So, when we started off this conversation, you identified, very broadly speaking, types of secondaries — LP-led, GP-led and continuation funds. LP-led are those in use by LPs. You described how it might be a form of managing exits, portfolio management, creating liquidity for the LP. GP-led secondaries, can you talk about the pros and cons of GP-led secondaries?

Liz Campbell: The pros are what I described earlier, as evidenced by the Kronos-Hellman-Friedman transaction. You don't want to give upside, additional value creation and existing asset just because you've got a time limit on a fund, and so the advantage of GP-leds is that it creates a way for both the sponsor and the investors and the funds to realize that additional value appreciation without having to be forced sellers because it's the end of the fund life.

The sponsors also know the assets better than anybody else, too, so it makes sense for them to continue to own them if there's that continued upside. The other pro is for investors. It gives them the option to generate liquidity, or it gives them the option to continue to realize the upside.

And then, I would say the cons are that not every investment is a Kronos, you know? And so, you've got to have conviction in that potential upside potential if you're going to stay in the transaction. And then, I think the industry has gotten much better at this, but you want to be comfortable with conflicts of interest. The sponsor needs to go get a fairness opinion from a third party, or oftentimes, they'll have that. Somebody will give them an offer they don't think is attractive that will set the valuation overall. But you need to be really focused on the conflicts and the fairness opinions from third parties. And then, I think this is not a con, but it's just a question. It's for continuation vehicles specifically, it's relatively early in their evolution within secondaries, and so, I think if these early transactions perform really well, and we've seen some of the early results have been quite strong, I think that will fuel additional growth in the industry. But it's a little early to say how that's going to pan out.

Peter Antoszyk: As you said, the dynamic of buying a GP-led secondary is vastly different than LP-led secondary, because the diligence process is completely different, no?

Liz Campbell: Completely different. That’s another good point. A lot of LPs don’t have the time or the resources to fully diligence and evaluate these continuation vehicle transactions. I think that the average time for evaluation before you have to give a response to a GP is about — in some cases it’s two weeks, in some cases you get three weeks — and so, if you don’t have the resources, it’s really hard to do full diligence when you’ve got probably 1000 pages of documents and numbers to read through. So, that’s another disadvantage overall. Certain LPs are set up better to do that than others. Some LPs have to go to a board for approval, which does not often work within a two-to-three-week time period. I think we’ll see continued evolution on that. There has been pushback from LPs on that, and so it will be interesting to see how the industry responds there.

Peter Antoszyk: It also impacts the type of secondaries funds that are being formed, and what their specialization is.

Liz Campbell: Yeah, it does. Within continuation vehicles, we’re starting to see more multi-asset continuation vehicles, too, which is an interesting development. A single-asset continuation vehicle is much more similar to a co-investment than a traditional LP secondary transaction. The multi-asset CVs are a bit of a blend, which is attractive for a lot of LPs, too, so that’s been another evolution we’ve seen. It’s always interesting, the creativity within markets in general, but certainly within private markets, it’s always fascinating to see. I think there’ll be continued evolution within secondaries, for sure, in the foreseeable future.

Peter Antoszyk: I would think that as we are starting to see new entrants into the market for secondaries, for someone like Portfolio Advisors, you must have a huge competitive advantage, given your primary relationships and your knowledge and understanding of assets, your access to deals that may be coming over the transom, and being able to sift through what might be a quality asset versus something that is maybe of lesser quality.

Liz Campbell: I'm certainly biased, but I think we absolutely do. Our competitive advantages are from multiple angles. I think, one, I would say relative to the rest of the industry, not every single competitor, but to the industry as a whole, is that our team has done a great job of just being very disciplined. Our fund size has not increased significantly so that we've gotten out of our sweet spot, where we do have our real competitive advantages, so we're still focused on the middle market. And that's allowed us to really lean into what our I think our biggest advantage is, which, as you said, is our primary fund capabilities, investing directly into these funds, and the relationships that we've developed over 30 years with top-tier sponsors.

That's a huge advantage for a couple of reasons. One is just from a diligence underwriting perspective. We have pretty unparalleled knowledge to the underlying funds and assets in the portfolio, so you've got historical financials, but also pretty good insight into the future expected performance of the portfolio companies. And then, also, because we've got relationships with the private equity firms, they're willing to get on one, two, three-hour calls or meetings with us and walk through the actual portfolio.

So there have been times where we knew that the biggest remaining asset in a fund was in an exit process and was going to get sold over the next six months, and we had, if not a perfect idea of what the valuation was going to be, we knew with pretty good certainty what it was going to be. That's just, it's an unbelievable, almost unfair advantage that we have from an underwriting perspective. And then, two, access to these GPs, not just them being willing to get on a call with us, but the top-quality sponsors have become increasingly restrictive, and I'll explain what that means. So, GPs cannot direct the sale of an interest in their funds. It's got to be a competitive process. But they have to approve who it's transferred to, and so, oftentimes, GPs would prefer to have their existing fund investors buy out that interest, rather than somebody who doesn't commit to private equity funds and is looking at this as a single transaction with no potential to invest in any future funds.

So that's a huge advantage, too. Oftentimes, we're one of two or three buyers that have been approved, and so it really reduces competition and leads to much more favorable pricing. Those taken together are pretty powerful advantages for us, both being able to have better diligence and underwriting, a better expectation of how the actual secondary is going to perform, but also getting in at much more attractive pricing.

Peter Antoszyk: And speaking of performance of the secondaries, there has been two different strains of thinking. One is that defaults, underperformance of companies, is a tail risk, and that, particularly middle market, which is what you're focused on, has shown a high degree of resiliency and the middle market companies are reasonably strong. So, extrapolating that out to secondaries, you should have a great market opportunity. Conversely, there is a concern that, even though people are talking about a soft landing, there still is a potential for a recession on the horizon, and that the defaults are actually going to be higher than what the industry may be saying. How do you think about that in terms of secondaries and the impact on your underwriting analysis?

Liz Campbell: It's a good question. I will start by saying, we've invested for over 20 years in secondaries, including through the global financial crisis when defaults really peaked, and our loss ratio is less than 1%. So, we think LP secondaries are one of the most attractive risk-adjusted returns you can get if you are disciplined and focused on assets, really good quality assets, with sound fundamental underwriting.

Honestly, for our portfolio, I don't worry about it as much, because of the advantage I mentioned earlier and our past performance. We have really good information when we're underwriting these deals. We know what their leverage levels are. We know what their free cash flow is. We know what the maturity is on the debt that they've got on the transaction. That's all factored into our underwriting. And then, the middle market is, I think, sometimes ironically viewed as riskier, but with really good sponsors. They're not relying on financial engineering or putting on a ton of debt to acquire companies. And so, maybe ironically, a lot of middle market portfolios are in much better shape today because of that. They don't have the significant impact of higher interest rates on cash flow, and so I think a lot of those really good assets are frankly less risky overall. But these are diversified portfolios overall, so if we're buying an interest in 10 funds, they've each got 10 underlying companies. That's 100 different companies. We spend a lot of time on the biggest needle movers in those portfolios, so the companies with the highest amount of unrealized value. So, if one hits a bump in the road, that shouldn't impact the overall returns in a very diversified portfolio.

Peter Antoszyk: So where do you see the evolution of secondaries market going from here?

Liz Campbell: I always hate predictions, because we're always wrong on predictions. One thing I am certain of is that there will be continued growth in secondaries, I think, on both the LP side and the GP-led side. Just from the growth of the private equity market and the amount of unrealized value that's out there that has to turn into liquidity at some point. So, there'll definitely be continued growth. Today, secondary transactions provide only about $120 billion in liquidity annually for an industry with over $20 trillion in assets under management, so there's a lot of opportunity still. The supply-demand imbalance, despite all the capital that's been raised, is still completely out of whack and favors buyers.

And then, I think there's going to be continued innovation. We've just seen a ton of innovation, obviously, over the last 20 years, but I think especially over the last five-to-seven years, with the rise of GP-led transactions. I think we'll continue to see more continuation vehicles, both single-asset and multi-asset. Part of that's tied to the lack of exits in the market, part of it's tied to desire on the part of LPs to have more options for liquidity. And then, it'll be interesting to see what happens in other asset classes within private markets. I think credit secondaries, the growth there is going to continue to be explosive.

Peter Antoszyk: I was going to just say, you haven't seen it in real estate, you haven't seen it in infrastructure a whole lot, etc.

Liz Campbell: I was going to say real estate, I've not talked about, but that, to me, is a really interesting opportunity as well. You know, 10 years ago, the opportunities in real estate were mainly multifamily and office. Real estate market has gotten a lot more interesting. It's a lot more specialized today than it was, and so there are really attractive opportunities to be much more thematic for us within real estate.

So, building portfolios that are more focused on, say, life science or cold storage sectors, sub sectors or niches within real estate that don't have the cyclicality of office and have much more attractive underlying growth trends. There's very little transaction volume within real estate secondaries today because the bid-ask spread is so wide, meaning portfolios are coming to market, but the price that potential buyers are willing to pay is so low that people often aren't selling, or they'll say, "I'm bringing a portfolio to market with private equity, private credit, some private real estate. I got the valuation I want on the private equity and private credit. I didn't get it on real estate, so I'm not going to sell that."

Peter Antoszyk: Right, right.

Liz Campbell: So, transaction volume within real estate has been very low this year, but we're starting to see that start to shake out as people get more visibility on what's going on within office — you'll see more movement there, we think. But that's another really interesting asset class that hasn't had close to the growth of private equity secondaries, but we're starting to see that more and more as well.

Peter Antoszyk: I would think that, when you see development of specialized secondary funds that particularly focus on real estate or infrastructure or related other industries, there are going to be industry-focused funds that are able to diligence those and underwrite those effectively.

Liz Campbell: Yeah, absolutely. And we've seen that within venture, as well. There have been dedicated venture secondaries funds, both direct venture funds — secondaries funds that invest directly into companies — and also those that focus only on venture funds, LP interest within venture funds. As every market matures and grows, there is always more specialization, which I think is a good thing. It gives investors more optionality, but it also makes sense from a risk-return perspective, as well.

Peter Antoszyk: So, let's pivot a little bit. Can you give a broader perspective of Portfolio Advisors AUM and what other investment strategies they're pursuing?

Liz Campbell: We are mainly — almost exclusively — private markets focused. We've got about 82 billion of assets under management, around 600 employees globally, in the US, Europe, and also Asia. As I mentioned earlier, we've been investing in private markets for over 30 years. Our main focus is private equity, private credit, private real estate, and then within each of those three asset classes, we have three strategies. So, what we call primary investments or fund investments, direct investments, and then secondaries across all three of those.

And the way our platform has evolved, we've always been focused on the middle market. And we started out investing only in funds. Our platform has evolved off of those fund investments, and the deal flow that we've gotten directly from private equity, private credit firms, so it's been a really natural evolution. A good example that I like to use is how we started our private equity secondaries practice. Before the credit secondaries industry — very early on in credit secondaries, before there were dedicated pools of capital — we were seeing these large portfolios brought to market, and we started seeing more private credit funds popping up in these portfolios. And we noticed people just weren't ascribing much, if any, value to the private credit funds. And so, we saw an opportunity to form a dedicated pool of capital focused only on credit secondaries with a lower cost of capital, and that's a huge competitive advantage at the time that allowed us to go and carve out the credit assets and provide a much more competitive offer than groups that were putting them in private equity portfolios. So, it's been a fun ride for us. Still a lot to do there, but it's been a great experience.

Peter Antoszyk: Well, this has been a great conversation. There's so much going on in the secondaries market and the private investments market more broadly, and you're certainly in the center of a lot of that. So, that's exciting, and I appreciate the information you've given us on secondaries. I just have a couple of final questions. One is, you've been in the CIO seat for a little bit. What do you think makes for a good CIO?

Liz Campbell: The best thing is when you've got really good investment teams leading investments. That always makes you look probably better than you deserve, which we do have internally here. I think, certainly, good fundamental knowledge of private markets for us, specifically, but also good connectivity with the teams. I started out on our primaries team investing in private equity funds. And so, because all of our deal flow comes directly from sponsors, it gave me touch points across our organization. So, I worked closely, for example, with our co-investment team. I would source a deal from a sponsor and then bring the co-investment team in. Same thing within credit, too. A sponsor would ask if we were interested in financing an acquisition. So, it gave me a really good feel for our overall platform. And then, beyond the obvious things like experience, good fundamental knowledge, I think, frankly, a willingness to listen. At this point, we've got a large investment platform with a lot of strong investment teams. Being open to hearing their views, what they're seeing in the market, and being able to apply kind of best practices and experiences across the platform is a really important part of it.

Peter Antoszyk: It's not an easy job. So, one final question. Obviously, there's an intensity to the job, particularly in a dynamic and fast-growing market and a complex organization. What do you do to relax?

Liz Campbell: Great question. So, I grew up in Mississippi. And so, I am a big football fan. I was, as my dad says, the son he never had. And so, I'm a huge Ole Miss Rebels fan and a huge New Orleans Saints fan. So, my favorite thing is when those teams are good. Unfortunately, I'm not sure if that's happening for the Saints this year. And then, sports were a big part of my childhood in high school and college. I loved to play tennis. I've gotten pretty into pickleball. It's very big where we live and so, that's been a fun new hobby to pick up, as well as paddle tennis. And then, I think, just relaxing. My parents just moved from Mississippi to Connecticut, so that's been fun to have them around. Anything involving sports and physical activity is a good way for me to unwind.

Peter Antoszyk: That's good. It's a great way to let off steam. Thank you, Liz, for your time and joining us on Private Market Talks. I very much enjoyed the conversation.

Liz Campbell: Thanks, Peter. Really appreciate the questions and the interview.

Peter Antoszyk: And thank you, listeners, for tuning into this episode of Private Market Talks.

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