2026 GLOBAL CONFERENCE
LEADING IN A NEW ERA

NAVIGATING LIQUIDITY CHALLENGES IN PRIVATE EQUITY

Announcer 00:01

Thank you for joining us. Please welcome the panel to the stage.

Ivan Lehon 00:33

Ready to go? All right. So, thank you all for joining us today, for our panel, "Navigating Liquidity Challenges in Private Equity." The private equity environment has been evolving over the years. We've seen there to be normal or regular pathway to exit has been constrained due to valuation gaps and holding period extensions. At the same time, we've seen other avenues for exits that have actually really been helpful to the exit, given the secondaries market, continuation vehicles, and some other finance solutions. So, thank you all for being here, and maybe we'll start with very quick introductions. DJ, do you want to start?

Dipanjan "DJ" Deb 01:31

Sure, Ivan. Thank you for moderating this panel, and thank you to the Milken Institute, and great to share the stage with five other luminaries. So, I run a firm called Francisco Partners that I founded in 1999. We're a tech-focused private equity firm, and we have about $70 billion under management, and our strategy's called complexity arbitrage, which is you buy confusion, hopefully at a discount, and sell clarity, hopefully at a premium. So, that's at least the theory.

Ivan Lehon 01:58

Thank you.

Dean Mihas 01:59

Great. Afternoon, everybody. I'm Dean Mihas. Nice to be on the panel. Ivan, thank you for hosting. I'm the co-CEO of GTCR, a Chicago-based firm that was founded back in 1980, and we currently manage about 50 billion of AUM and invest across four industry verticals: health care, financial services, tech, and business services.

Jenny Chan 02:28

Hi, everyone. I'm Jenny Chan. I'm with the Children's Hospital of Philadelphia. I've been there for a little over seven years, and we run, in our largest endowment pool, a little over five billion.

Yann Robard 02:41

Yann Robard, managing partner at Dawson Partners. We are a structured liquidity solution firm focused on injecting liquidity into private markets. We've got about $28 billion of assets under management. We're based primarily in Toronto.

Jonathan D. Sokoloff 02:56

Hi. Jonathan Sokoloff of Leonard Green & Partners here in Los Angeles, private equity firm, manage about 85 billion. Was fortunate enough to move to Los Angeles a little over 40 years ago and go to work for Mike Milken and Drexel Burnham, and meet a client of mine, Leonard Green, who took me in off the streets when Drexel went out of business, and I've been there for 36 years. We do a variety of diversified industries, probably most well known for being the early investor in Shake Shack.

Paul Taubman 03:29

Good morning everyone. It is a great pleasure to be here. I'm Paul Taubman. I'm the chairman and CEO of PJT Partners. We started 10 years ago. We have three principal businesses: a strategic advisory business, which is principally intellectual capital; we have a leading restructuring and liability management business; and we have a fundraising and fund placement business, PJT Park Hill, and within that, we're one of the leaders in continuation funds and the like. It's a pleasure to be here, as I said.

Ivan Lehon 04:01

All right. Thank you all, and I guess I didn't introduce myself. So, Ivan Lehon, I'm the global private equity leader for Ernst & Young, and I think most of you know what we do, so we can just jump in. So, DJ, since you're to my left, which was, I guess—we knew where to walk. How would you describe the current exit environment, and what constraints are you seeing?

Dipanjan "DJ" Deb 04:26

Sure. So, I'd say the exit environment has not been great. I think it's not—it's clear that the GPs and LPs—that we've had four down years of exits, basically since the 2021-22 period, and I don't think that's going to change this year. I think DPI is a big focus for a lot of LPs and GPs. When you have this gradient of change, especially in the tech markets, where we spend the preponderance of our time, people freeze, and it's hard to get transactions done. We have been active in this environment, but I would say I think liquidity is likely to be lower this year than what we'd forecast even four or five months ago. As you alluded to, and maybe Paul can talk about this, there are new vehicles like continuation vehicles and other things, that people are trying to synthetically create liquidity for LPs. But I think it's going to be slow for at least three to six months until people understand if this is the new normal or if stock prices will turn around. The irony is there's a divorce from what's—I mean, look, we just had the best stock market in six years in April, although that seems divorced from reality of what's going on with the world at large and so on. If it hasn't translated to exits yet—maybe the IPO market coming back will change some of that, but that's three to six months away.

Ivan Lehon 05:42

Yeah. Thank you. Does anybody else want to jump in on that one, on the current environment?

Yann Robard 05:46

Yeah, I think—look, over the last 25 years, there's actually only been six years where the distributions has been lower than 20 percent of NAV. It was 2001, 2002, 2009, '23, '24, '25. So, this is the longest recovery back to liquidity private equity has ever seen. And also, I think I'm a little bit more positive in the fact that we've been hearing about liquidity coming back for the last two to three years. We start the year with cautious optimism. Something then tends to happen that freezes market to a certain extent. But I also believe that at some point in time, uncertainty is a new certainty. From what we talk about with GPs at the end of the day is that they just need to get on with business to a certain extent, and LPs have been clamoring for GPI for a period of time, and—I think either through innovations through continuation vehicles, and other ways—I think the liquidity will be returned towards normalization, if not this year, certainly into next year.

Ivan Lehon 06:49

Yeah. Dean, are there exit pathways right now that seem more viable to you, or certain sectors that you think are more resilient?

Dean Mihas 06:59

I would say the traditional exit pathways all exist. The highest priority, I think, for all of us on the panel, is always a strategic exit. We're trying to build great companies, with great management teams, that are industry-leading businesses that will be attractive for sale. I think that's all of our focus. The IPO market, I would say, for private equity, has become less attractive despite the fact that markets are roaring, to your point. Taking a company public these days, unless it's of a very significant size profile that can get long-term investor interest or a very, very strong growth profile, it's very hard. I think, for private equity to look at an IPO exit and view that as an attractive alternative—CVs, as Yann was pointing out and DJ was pointing out, that's a new part of the market. I think that's been something like 20 percent of the exits in the last couple of years. So, that's clearly new technology that's been created, and it looks like it's here to stay. But, if anything, I'd think there's a little bit more of a pivot towards CVs in the last five, seven years, and, probably, in the last two, three, four years, a pivot away from public markets for exits.

Ivan Lehon 08:32

Yeah, Jon

Jonathan D. Sokoloff 08:33

Yeah, so look, I think exits are the crisis for our industry. I think we're all doing a pretty good job investing the money, growing the business, but exits are really difficult. Bain Consulting says we should all exit 20 percent of our NAV every year. The industry's running half to two-thirds of that now for three years. That's a real problem, but our job is to buy businesses, grow them, and exit them. There's kind of four paths to exit: Strategic sale, PE sale, CV, or IPO, and it's just been very tough. We had to kill ourselves to get our exits. They're really, really hard to do. But I think one of—the other thing the Bain report says is when they did a survey—why are exits lousy?—and it says because a lot of private equity firms are carrying their companies too high, and that's pervasive in the industry. And GPs hate selling companies below their mark. And so, for example, if you're going to sell a company today for a 20 percent IRR after five years at your mark, great. If you can't get your mark, if it takes you another year to get your mark, the IRR goes to 17. If it takes you two years, your IRR goes to 14. Three years, it goes to 11. So, you're going to see extended hold periods, even for the good stuff, and declining IRRs, which will, I think, all lead to a much wider dispersion of return among PE firms. You happen to have some of the best ones on this panel. There were 1,000 transactions done in the PE community between 2015 and 2022 of $500 million or greater. Very few have exited. Some will find strategics, not that many. They're all going to have to get sold. And a lot of them nobody wants. Because the other filter for exits today: who is the buyer? Fidelity, a corporate, a CV. They only want the best. There's a flight to quality. People want to buy good stuff. And of that 1,000 companies, a lot of them are not the best stuff. So, I think it is a problem. It's going to stay bad. The good firms will distinguish themselves by getting high DPI. Because they say DPI is the new IRR. It really is.

Ivan Lehon 10:46

Yeah. Thank you for that. And maybe, Paul, I can jump to you because that—thinking about assets right now that, I'll put in air quotes, that are "stuck" in portfolios, how do you—

Jonathan D. Sokoloff 10:59

Paul's going to do great because a lot of workouts over those thousand companies. So, you're going to have a lot of business.

Paul Taubman 11:04

Look. The underlying challenge is clearly that there are more assets that need to be monetized than the system can efficiently and effectively monetize. There are a whole host of reasons why that's the case, but I don't subscribe to the belief that the reason for it is because somehow the M&A market needs to get unstuck or somehow the IPO market needs to get unstuck. So, let's just step back for a second. If you go look at 2021, I think by all accounts, a gangbusters M&A year. As we calculated, sponsor M&A monetizations were like $1.7 trillion. That was either sponsor to sponsor, or sponsor to strategic. And you had an ebullient capital markets IPO marketplace in 2021. You fast-forward to 2025, I think by all accounts, a good, a strong, M&A backdrop in 2025, a strong IPO market, the quantum of sponsor monetizations, $1.5 trillion. So, $1.5 trillion in 2025 versus $1.7 in 2021, which was a records gangbuster year, and this issue of liquidity and DPI and mismatch, it grew. So, from our perspective, it's just simply that the M&A markets by themselves and the IPO market—which I agree, has become less attractive for sponsors for a variety of reasons, we could spend an entire panel on it—you need to create a third way. But it's not just waiting for the M&A market to have a good year, because it had a pretty good year last year. It's going to have a reasonably good year this year, and this issue is just going to continue to compound. So, then the question is: how do you create a process where you can unstick some of the stuck stuff? If I can say that five times fast, I get a prize. There's a distribution of quality of assets. So, for the assets that have very attractive end markets that are growing fast, so there's top-line growth—top-line growth is how they're delivering value as opposed to necessarily margin improvement—there's a really strong bid. The issue is that as you think about a distribution of portfolio companies, that's sort of the highly attractive part of the market, and for those quality assets, you're seeing multiple bids from sponsors, multiple bids from strategics, preempting of processes and the like. And then you get into a much larger group of assets where there's not a compelling reason to act today, and the question is: can you clear a price that makes sense for the acquirer? But I think what's happened in this market is you have a highly discriminating class of strategic buyers. You have sponsors who are taking their foot off the gas a little bit as far as deploying new capital. And for those assets that are in the middle, I think it's challenging. It can be done, but those processes are typically elongated processes.

Ivan Lehon 14:23

Yeah, I know. Thanks for that. I think that now gets right into where maybe, Yann, you can talk about some of the, what I would call, the emerging pathways to exits, like secondaries market, maybe continuation vehicles and—

Yann Robard 14:38

Yeah. First of all, I feel like I need to come to the defense of private equity. Jon. So, look, over the last 25 years, let's not forget, private equity has outperformed public markets, right? If you put a dollar into Russell 3000 back in January 1st, 2001, you put a dollar into private equity, you would've gotten nine times your money on Russell 3000. Not bad. You would've gotten over 20 times your money in private equity. So, over the long term, private equity does work. Now, it goes through cycles, and it has gone through three distinct cycles. But we can't forget at the end of the day that in 2021, private equity generated 40 percent returns, right? So, it gave some of it back over the last few years. As you know, some of that exuberance kind of came through the system back in 2021. I am a believer in private equity. I believe that it's got a good corporate governance model. It provides long-term patient capital, so GPs can do what it needs to do to build better businesses. And that is a lot better than managing a company through quarterly earnings and having to build it through narratives. So, we'll start with that, and I'm going to get to your questions around what does a secondary market do within that.

So, first of all, GPs need four, five, six years to do what it needs to do to that underlying portfolio company. It needs to be able to have patient capital. But guess what? LPs have built their portfolio in private equity in different ways, in different asset classes, and it's reacting differently to what that does in the market. So, they need liquidity or flexibility. So, you've got these two ecosystems that are kind of coexisting, but they need different things. They need duration. They need flexibility. And what you have in the middle is a secondary market. And the secondary market allows these two ecosystem to actually coexist and to be able to provide the liquidity that we're talking about in this market. The problem is, is that the secondary market is undercapitalized. It kills my soul every time I see a headline saying, "Best fundraising year for the secondary market," because—it's factually correct, like last year, $165 billion got raised in the secondary market. Guess how much got deployed? $225 billion. This is an asset class that is shrinking, not growing, from a dry powder perspective, and it's working really hard to stay capitalized to inject the liquidity that we're talking about here today.

So, continuation vehicles have come on the scene in the last—since 2021, really kind of ramping up. Our numbers is that it's about 15 percent of all exits right now. You would think by hearing all the headlines that it'd be 90 percent of all exits, right? At the end of the day, continuation vehicles are 15. And I believe even when liquidity does come back, there will be a place for continuation vehicles as a fifth exit option. To your point, you got strategics, IPOs, you got M&A, and then you got dividend recaps. So, now you've got continuation vehicles. They're not going to overtake, but they're providing more liquidity to an otherwise illiquid asset class. And it's going through a period of time where everybody's trying to figure out right process, right structure, right mindset, so that at the end of the day can be additive to the market. But I don't see that as a market that's going away. And it's interesting, every time you have an innovation in the markets, there's a period of hesitation or skepticism. Sponsor to sponsors in the early 2000s was not well received. Sub lines, not well received. Now you're getting to continuation vehicles. We're going through that period of time, but I think when you get to the other side of it, if it's done in the right way, it can be additive to the market.

Ivan Lehon 17:56

Thank you.

Yann Robard 17:56

That was a long—I went through a whole—

Ivan Lehon 18:00

I don't know. Jon doesn't seem too offended, so I think we're okay. Dean, do you see this as a structural change to the PE core, how we transact business?

Dean Mihas 18:12

I think there's going to be—to Yann's point a little bit—there's going to be a lot more have and have-nots and reckoning over the next three to five years with hold periods extending. You've got valuation marks that are questionable. I think you'll see a lot play out over the next three to five years, and I think there'll be a lot of differentiation in returns. So, the good firms will continue focus on doing what they're doing well and sticking to their strategy and finding good investments and I think underwriting—when you're underwriting, doing new deals, focusing on companies that you know you can exit, that you know that there's a group of buyers out there if you build that company right—I think that's going to be a big focus. But, I do think over the next three to five years, you'll see some meaningful fallout coming from this environment.

Ivan Lehon 19:10

Yeah. Jenny, from the LP perspective, how have your views changed or evolved around continuation vehicles?

Jenny Chan 19:21

I would say, coming into maybe recent years, I had a very strong bias around the rationale with certain continuation vehicles. I think in my experience, the assets that wind up there sometimes have a fuzzy quality, and it is more of—a less desirable way to realize some value there. Having said that, I think in recent—12, 18 months for us, we've certainly seen more of them. So, to your point, I don't think they're going away. What I've appreciated is that GPs have become much more transparent in why they're selecting—whether it's one asset, three assets, some type of strategy toward a path of realization, and even estimates around timing, because it's such a huge component in our assessment of deals. So, I do think the potential stigma around continuation vehicle assets, that they're just all the subpar assets, that's being challenged, which is a good thing because I also agree there is a place for those vehicles. But there's

still a lot of, I think, learning curve because I don't think I'm alone in at least my bias coming into this recent period.

Ivan Lehon 20:57

Thank you. I know Jon wants to—

Jonathan D. Sokoloff 21:00

So, at Leonard Green, we have two funds for a long time. We have a big fund and a middle market fund. And then we raised a new fund, which closed in January, called Sage, which is solely to invest in single asset continuation vehicles, $3.6 billion—biggest fund of its type ever raised. So, we think it's a market that's here to stay, and, fundamentally, the investment strategy is to buy good stuff cheap. That's our mission, and—it's funny, we closed the fund in January, and we're at our Monday morning meeting, and everyone's congratulating the team, and they did a great job, and so I asked the team—so it took us about 18 months to raise it, which is a long time for us to raise any fund, we've never been in the market that long—and I said, "How much invested are we already in the fund?" And the answer was 25 percent. We'd never been invested 25 percent before when we closed a fund. And I said, "How much capital have we called?" I didn't know. And the answer was zero. And I said, "What's the IRR?" And they said, "Infinite." So, I joke with our team at Sage, and I said, "You guys aren't really even investors." And they look at me like I'm insulting them, and they say, "Well, what do you mean?" I said, "Well, you're manufacturers." And they didn't know what I'm talking about. And I said, "You manufacture IRR, and you're really, really good at it." Which is an even extension of all the tricks the secondary market has used for decades about day one markups, discounts, all that kind of stuff. But the LPs, many of them are very much graded on IRRs, and this is a great way to give them a product that we want. And, I was at an ILPA event last year, and they asked me to chair a breakout session on CVs because Leonard Green had raised a fund. "Leonard Green doesn't do a lot of new stuff. Why are you doing it?" And I said, "Well, it's a really flawed structure, full of conflict of interest on all sides with some really bad actors, but thank God we have it because it's an important tool in our toolkit if used right." And again, on the sell side, hopefully you can sell some good stuff, or you maybe have a little minority stub piece left over. And on the buy side, our view is we get to pick the best and buy some good stuff cheap. So, hallelujah.

Jenny Chan 23:16

Maybe I could just add one comment around the CV. So, I will say we've never underwritten a fund, a fund's timeline, with the life of the fund plus CV lifetime. That's a whole different type of perspective and a different math that—it's just more challenging. The idea that I think it's going to proliferate, I'm not sure if that's going to gain the traction that GPs necessarily want. That's quite different, I think, from being able to raise funds, because we see that happening already. But it does create associations that maybe aren't so positive.

Dean Mihas 24:04

I will say—

Dipanjan "DJ" Deb 24:05

Go ahead.

Dean Mihas 24:05

I was just going to say, to Jen's point, there's definitely right reasons to do a CV: that LPs appreciate the liquidity, it is a winner, it's in an older fund, you ran a process and know it's a saleable asset and have some validation on the mark. There's a lot of good reasons to do CV, but there's also a lot of bad reasons to do a CV, like, it may not be an older fund, you're stuck with an asset, you're just trying to move it. So, there is a lot of scrutiny from the LP community on that. Hopefully, Jon's buying the good ones, not the—

Jonathan D. Sokoloff 24:42

Too soon to say.

Dean Mihas 24:43

—not the bad ones, but…

Dipanjan "DJ" Deb 24:45

So, I'll just add a few things. First of all, we've never done a CV, so I can shit on CVs, but if we do that in a few years, then I can't. But I think CVs are here to stay. There's a fundamental disconnect between LP and GP motivations. The reality is most LPs are compensated on IRR—Jon alluded to this—and GPs are compensated on multiple of money because it's carried interest, and you have this tension in the room. So, we've created all these things like lines of credit, which actually are carry dilutive, but we've had to do it because we get comping as to our peers, and Dean and Jon alluded to this. You're seeing the best of the best up here in terms of performance, and there is going to be this bifurcation of winners and losers in portfolio count and in GPs. The second thing that's going on in our market is we have a lot of companies. I call it—for people who are old enough—the roach motel companies, which is you can get in and you can't get out, right? So, there's going to be a lot of those companies, but the incredible thing about smart finance people is they invent new ways to exit companies. So, I'm actually cautiously optimistic there will be. No one had thought about selling to sponsors. No one had thought about CVs. No one had thought about all these things. There might be new vehicles to do that. The last thing is that public markets have been on a

historical run. Alternatives ultimately get comped against public markets, and there, the five- and ten-year returns, except for the top quartile managers, don't look so good. For the managers up here, they still look good, but that's likely to abate. I don't understand why the stock market went up in April when we're at war, for instance. I just don't understand that. But long term—

Ivan Lehon 26:22

We're not.

Dipanjan "DJ" Deb 26:23

Say that again? Oh, yeah, we're not. Sorry. Yes. But if you look at Fidelity or BlackRock, they're predicting the stock markets are going to go up 2 percent next year. I think private equity, by virtue of its business model, is likely to outperform. And when things are doom and gloom, as you see on this panel—the topic of this panel is liquidity challenges in the private equity. If you're counter-cyclical, people tend to over-invest at the top and under-invest at the bottom. If you just do the opposite, you tend to dramatically outperform, and I think there's tons of very smart people, which—we think now is a very interesting time to buy, I know that's not the topic of the panel, but it's just something to keep in mind amidst all the doom and gloom.

Ivan Lehon 27:02

Yeah. I think, Paul, you want to…

Paul Taubman 27:04

Look, I don't think that continuation funds are a fad, but I don't think they're a panacea and that they're a cure-all either. But I think it's a necessary tool in the toolkit, and I just step way back and I would make the following observation: there's a math problem if all of your exits are going to be either sponsor to sponsor, or sponsor to strategic, or IPO, you just will not be able to clear all of these assets and create the desired amount of liquidity. That doesn't mean that everything should go into a continuation fund. It means, it's a tool in the toolbox, and while we've had these levers before of M&A, IPO, and dividend recap, I think the IPO market has become more challenging. A lot of that is structural, and it's happened over time. So, whatever that avenue was for liquidity, it's less attractive on average today than it was 10 years ago. That doesn't mean that there aren't companies that should access the IPO market and do follow-ons. It just means that on average, the degree of difficulty has gone up. I think if you then take a different lens, you have to ask yourself: "Is it an attractive asset class to invest in?" And I think there are arguments that having continuation funds where there isn't the same J curve, the fees are less, there's specific identification of the asset, you have a clear track record from blue-chip private equity sponsors that you can create attractive returns, and, if you believe that, then it's just simply part of the overall toolkit. And I

could see it being meaningfully larger than it is today. And I'm in agreement with a lot of these themes, but I don't think that this market is here just because the IPO market is challenged, and as soon as the IPO market returns, magically this goes away. And I do agree that motivations are not always pure, and not every CV is the right asset to be put into a vehicle and priced accordingly or appropriately. But I do think that over time, there's going to be greater comfort, and one of the ways you create greater comfort is—this asset class needs to and should grow to be much larger. When it is, the ability to have more competitive tension, better outcomes—I think a lot of the growing pains that we're all seeing today, they start to diminish. They may never go away, but I think they diminish.

Yann Robard 29:43

There's a reason why public markets went from 8,000 companies to 4,000 companies. Companies are more happy private at the end of the day. And so, the reality at the end of the day is that what the industry is doing is, as it's gotten bigger, it's creating new tools in the tool set. Like one in five or one in ten of your companies, all the GPs, may end up in a continuation vehicle. You have an asset, you like that asset, you've done well with that asset, but you see the next chapter, and you want to hold onto that asset versus selling it to another sponsor, right? That's the reason why—and I think over time—I think in 10 years' time, we're going to look back like we do today, and—I remember in the early 2000s, sponsor-to-sponsor transaction is like, "How dare you buy from another GP? That GP's done everything it needs to on the underlying company." We're going through a trajectory, and I agree with the LPs, like look, the LPs, it's got to be right structure, right process, right mindset in terms of how this is happening, but there is a space for continuation funds in this market as private market continues to grow.

Jonathan D. Sokoloff 30:44

We love continuation funds as a seller and a buyer. They're here to stay. I don't know if it's 10, 15, 20 percent of the exits because we do live in a very creative and inventive industry. Now there's continuation funds of continuation funds, by the way. And there's new stuff coming up we haven't even thought about yet, that Paul will think of and Yann will think of. But yeah, the IPO market is really messed up, and it was a huge source of exits for us. And now the bankers who always overpromise and underdeliver come in, and here's the pitch they make, they say, "Oh, the IPO market's back. Great. And Jon, you're tall and handsome and thin and all that stuff." And we say, "Okay. Tell us about it." "Well, you got to be giant. We're still coming off the hangover from '20, '21,'22. You have to be at least $5 billion, maybe $10 billion enterprise value. You got to be growing double digit organically. You have to be unlevered." This is the same bank that just levered us up in a recap a year before to six times. And then they say, "Oh, and by the way, the best is yet to come. You're going to hate the price. The price is going to be low. Huge discount. To get Fidelity to buy, they're going to want to know they're going to make money day one, so you're going to hate the price. So, just do a small little IPO just to get out there, and the price will go up." Well, we say, "If we do a small IPO, we can't de-lever because you just levered us up, so the math doesn't work." There's a giant med IPO in our industry, Medline, last year—huge success. Medline's worth $70 billion. There aren't that many companies that are of that size. So, we have companies that are not worth $70 billion—$5, $10, $15—so, we really have to be creative and inventive and aggressive and nimble to exit. And the other thing, we've done a ton of exits. We've done a great job. But, by the way, quite a few of our exits have

been at prices lower than we thought we'd do. And part of the success in our business is selling stuff at an acceptable price, maybe not a great price. We all have a few deals we can talk about. We make 5X. We're geniuses. But most deals, you don't make 5X, and you don't get what you want. But you just have to sell anyway, and that's something a lot of GPs don't have the discipline to do. They wait for the dream price, and if you wait for the dream price and don't get it and you hold and hold, as I said, your IRR goes down and down and down. So, we're in the business of buying and selling, and you just have to sell at some point.

Ivan Lehon 33:01

All right. So, if anybody else feels like I lost control of this panel let me know. All right—

Dean Mihas 33:10

You said earlier Jon was in charge anyway.

Ivan Lehon 33:13

I did say that. Let's maybe talk a little about—

Dean Mihas 33:18

I would just add one point—important point that Jon made on the IPO stuff—it's become a real consideration when you're underwriting a deal whether that's the likely exit. And if that's the likely exit for a company and it's going to be a $5 billion enterprise value or three or six, you're really thinking about whether you want to do that deal or not, if they're not logical, strategic buyers. Even if you've got a great team you're partnered with, even if you've got a great value creation plan, if there's not likely buyers for that and maybe it's too big for a lot of private equity buyers, but it's an IPO, I think you're thinking real hard about the risk/reward in that underwrite.

Jonathan D. Sokoloff 34:06

Look, we do a lot of co—we're all doing co-invest now.

Dean Mihas 34:09

Back to Jon.

Jonathan D. Sokoloff 34:09

Co-invest is LPs, you come in to pitch your fund—they don't care what your returns are. They don't care what your LPA is. They just want co-invest, right? And so, you say there's a deal and you want the co-invest and they say, "What's the exit?" And if you say "IPO," a lot of times they say, "We're not investing."

Ivan Lehon 34:28

No, and I would say as we've discussed when we were talking about this in the past, there are 32,000—give or take—PE-backed companies, and many of those are very good companies with solid business plans. But they just need a little bit more time due to the current exit environment. And so, to me, it makes sense to have another liquidity stream. So, all this makes sense and Jenny, thanks for taking that for the team to rile everybody up.

Jenny Chan 35:03

No problem.

Ivan Lehon 35:05

So, actually maybe, to you, because this—maybe it'll get the same. When you think about where you're looking to invest, what characteristics or behaviors are you looking for?

Jenny Chan 35:20

I would say in the last 12 to 18 months, we've had to make the most challenging decisions because we really do love all of our partners. But because we put so much money to work in the last three to five years, and there seems like there is this kind of step function of delayed DPI realizations, all the stuff we've talked about, it becomes more of a pervasive theme across the portfolio versus exceptions, which is what the case was in the past, and so I think the days of just trust us, like—it's really hard to make this decision based on that. But I also think it's not that difficult for GPs to continue to build the trust that they've established. Whether or not that ultimately ends in a follow-on commitment or a new commitment is really specific to the organizational needs of the LP. But I have seen, even arguably folks who don't actually need to put in more effort, particularly in raising funds, step up, and I think that's a really great signal to LPs that we're—I think we're all working harder—but on the LP side, we're certainly working harder to distinguish what makes sense in the portfolio. And there's an opportunity for GPs to redefine what partnership means in that environment.

Ivan Lehon 36:59

And, DJ, I know you're going through—what kind of questions are you getting?

Dipanjan "DJ" Deb 37:04

You mean, during the fundraise?

Ivan Lehon 37:05

Yeah.

Dipanjan "DJ" Deb 37:05

You have lost control of the panel, by the way.

Ivan Lehon 37:09

Right. Okay, so it wasn't just me.

Dipanjan "DJ" Deb 37:11

No, no. So, we're fundraising right now. We're kind of at the last inning of the fundraise, but for us, we're a tech-focused fund, and almost all the questions are about, is AI disintermediating software? There's the macro questions about private equity, which is DPI, et cetera, that, as Jon said, DPI is the new IRR for us. It's been about software disintermediation by AI. And what I tell our LPs is the following, which is, AI is a meta wave. Look, I've lived through five meta waves in my investment career. Started with the PC, then you had the internet, you had mobile, you had cloud, and now you have AI. This is the only one that's really comparable is the internet. And like all meta waves, things are grossly overestimated in the short term and underestimated in the long term. And when the internet came along, no one had thought about Airbnb or Uber or DoorDash. What they were all talking about was the fiber buildout, which most of it lost money. So, I think it's going to create a huge dispersion of winners and losers in our own portfolio. There will be horizontal software companies, marketing companies, infrastructure companies that will get hurt. I think for other of our software companies and other parts in our portfolio—we do much more than software; we do a lot of other technology as well—it's actually going to create moats where their TAM and SAM will increase, and they'll actually have terminal multiple increase from here. The other thing that people just don't talk about, because all the VCs and the growth equity firms are talking about—human nature never changes. It never, ever changes. When things are great, people get greedy, and when things are bad, then people get fearful. I remember in 2021, and I think Yann or Paul alluded to this, but in March

2021, to start our advisory board meeting, I said, "I know more people that have raised SPAC than have had COVID." And that was true because every banker was calling me about a SPAC, and at that point, we were selling everything we could, and we fundraised early. I think we're sitting on a massive growth equity and venture equity bubble. This feels like '99, 2000, and all the VCs are saying this time it's different, and that's usually a sign that this time it's not different. And the excesses here have been greater than anything we've seen. That's going to create an enormous opportunity for us going forward, which is 5 percent to 10 percent of these companies will be the next Facebook, Googles, Amazons, and 90 percent of the companies will go by the way of the dinosaur, and that's going to create opportunities to invest in those companies.

Jenny Chan 39:34

Oh, just one addition, as I'm kind of thinking about what makes a good GP. So, when you don't have much data in your data room—it sounds basic, but I can't even tell you how often we encounter this—it's quite confusing to a prospect.

Yann Robard 39:57

So, okay—I have a little bit more pause, as I think again—but I think, growth venture aside, let's look at private equity. Private equity's gone through three distinct chapters. The 2000 to 2007 chapter was people were buying at 10 times. They were leveraging it at five and a half times at that point in time. The debt to cap was close to 60 percent. Revenue was high single digits. Margin improvement was near zero, and it was all deleveraging, and that was the decade of financial engineering. Then you got into 2008 to 2021—and we all talked a lot about operating value add during that period of time—but actually, when you look at the data, revenue doubled, went from 7 percent to 14 percent, multiples went up from 10 percent to 15 percent, and what was happening was PE was actually getting rewarded for growth. So, it was growth at all costs, and efficiencies was not really the name of the game. Margin expansions was near zero during that period of time. And so what happened was that it was buy and build. It was fueled by leverage, the low cost of debt, and that essentially enabled higher multiples, and that's the multiple expansion. What we're entering now is the third chapter of private equity. Multiples are high—oh, by the way, the debt cap on the second went down to 40 percent—so, we're entering the third phase. Multiples are high. Debt to cap is probably going to stay above 40 percent. At the end of the day, what's really going to need to move the needle is margin improvement. So, all of this discussion around operating value add comes into this chapter here. So, to your point around deciphering which GPs are going to be able to add that margin versus others that don't—and I think AI is going to be not in just software, in all industries—how are you using AI to actually create that margin? With margin, you can go back to historical returns in private equity. Without margin improvement, it will be difficult at these multiples.

Jonathan D. Sokoloff 41:52

I'm not sure I agree.

Yann Robard 41:53

Oh, wow. No way. Really, Jon?

Jonathan D. Sokoloff 41:55

Everyone says, "Oh, just margin improvement, margin improvement." In the end, you have to grow. You can grow any way you want. You still have to grow. You can grow revenues, you can grow margins, but as long as you grow, you'll create value. Our view is if you have a good business, you should be able to sell part or all of it in almost any environment at a fair, if not a great price. So, if a GP comes into you and says, "Hey, gosh, our companies are fantastic, and our marks are really low, and DPI's lousy, but don't worry, it's temporary. The whole industry's lousy. It'll be fine." Yeah, that's probably not true, and they're just masking it, and they're going to kick the can down the road. And AI is every day, every meeting, every company—AI. We're not a tech firm, we don't do tech, but still, every company, whatever. So, we had our AGM last week. Here's a crazy story. So, we had all our companies present, and we had this really nerdy CEO up on the stage, and he's like a specialty construction company, nothing to do with AI. He has big machines. They go in and try to stop infrastructure from falling down before it does. And he's been living on Claude. Since New Year's he went on Claude, he hasn't gotten off since. And he'll see—if you're not on Claude, you're fired. So, he said he has 22 software vendors that make his company grow, that he pays some kind of fee to every year, and in two years, he's only going to have three. He's going to fire 19 companies. No more revenue. Goodbye. Now, that seems very extreme, and I'm not sure he means it, so I just said, "Well, who are the three?" And he said, "ERP, payroll, and cyber." He said, "Everything else, we're going to fire." Now, let's assume he doesn't. It's just a wild directionally idea, which could have huge margin improvement for our companies, but it's not what our thesis is going in, but the potential is crazy. Now, we asked our companies a few months ago, we have 60 businesses, "Okay, go out and talk to all of our companies and come back and tell us which are going to get crushed by AI, they can't help it, they're going to be victims, and which are going to be—maybe we'll have a few that'll be winners." So, guess how many of the 60 came back and admitted they're going to get crushed? Zero. So, no one's going to get crushed. They're all going to turn AI into a positive enabler, and—I don't know the answer, ask me in a few years—but there's so much commotion going on. It's unbelievably exciting and, in the end, I think will make us money.

Dipanjan "DJ" Deb 44:22

By the way, Jon's nerdy guy who came up and said going from 22 vendors to three is what the public market thinks. And I think the public market's totally wrong because I asked all my partners—by the way who also during November, December, they all send me what the banker pitches are on their companies thinking it'll get them big bonuses—but I said, "How much can we cut on each portfolio company?" It's massive savings. And I'm like, "How much should we cut in Francisco Partners?" It was zero. So, it's just when it's your company, you have a different view than when it's somebody else's company. They're not going to go from 22 to three vendors. They're going to go from 22 to 15 vendors. Because when you need full fault tolerancy, when you need 100 percent accuracy, you're not going to cut those vendors. They're going to have to reinvent themselves. What customers really want is their incumbent vendor to actually

give them better pricing and more products reliably. My mom broke her femur nine months ago, and they live 30 minutes from us, so I was visiting her often, and I showed them mobile banking, like depositing a check. She's like, "Whoa, magic." I'm like, "No, it's not magic. This has been around 10 years." And banks didn't go away. They just reinvented themselves. Wells Fargo and Chase still exist. They just provided different products for their customer. That's what's likely to happen. But the stock market's like, "Okay, we'll just sell all these companies because they're all going to go away." That's not what's going to happen.

Ivan Lehon 45:46

And by the way, AI, right, it's very company specific. Even though the market tells you just—you did it here, you do it here, you do it, right, ba, ba, ba, ba. Each company is—

Dipanjan "DJ" Deb 45:58

By the way, people think the legal market's gone away. This is the number one year of legal law school applications ever. Just think about that.

Yann Robard 46:08

Yeah, I just want to be—just to be fair, I'm not saying it's happening overnight. I'm saying it's happening over the next four to six years. I'm saying that all the things that you're talking about, going from 30 down to 25 software systems. I'm thinking about the productivity that we're seeing in our own firm around tasks and the number of humans that you need to do those tasks—and they're incremental, and it's not an overnight phenomenon, but at the end of the day, there is an opportunity for companies to become slightly more productive. We're talking about 150 to 200 BPS on the margins of a company, as an example. That's what's going to create the returns, I think. And yes, you still need revenue growth in order to be able to generate that, but it's tougher when you're coming in at 16 times. You need to find something else to offset expansion, multiple expansion, and that can be the addition of a bit of, not revolution, but a bit of EBITDA margin to help offset this multiple expansion that we had in the last cycle. So, it's all a little bit more balanced than all in or all out.

Dean Mihas 47:12

I would just jump in here, too, just to pick up on DJ's comments a little bit. I think our perspective as a firm is that the world is not overreacting. Frankly, tech companies traded off 20 percent kind of across the board, but tech multiples have been pretty high. So, I don't know that that's a crazy overreaction market correction. But, for us, I think, we look at AI, and I love the way you framed it in terms of the kind of big events over the last 20, 30 years. This one does feel different to us. This one feels way more consequential, much more of a seismic event to industry and society. And there's so many dollars that—the magnitude of dollars being thrown at AI and the unlimited pools of capital that big tech has, and the fact

that AI is a virtuous cycle of learning from itself, training itself. It feels like things are going to be very different in the world in five and 10 years. And we're not purely tech investors—it's one of our four industry groups, kind of a quarter of what we do—but really for us, across our entire portfolio, even if it's a pharmaceutical company or a healthcare services company, or a financial services company, we're looking at AI and taking it very seriously about what can be done, where the opportunities are. Maybe they're not threats in the next year or two, but what could the world look like in five, six, seven years? And so, I think it's a really big deal—bigger deal than the other events that have shaped the industrial revolution over the last, of the last 100 years.

Jenny Chan 49:09

Yeah. And I would say we're doing a similar thing. So there really is no conversation about the companies that are being invested in that doesn't involve how AI is being absorbed or paid for, or all the above. That's really just table stakes now. For anyone to not mention it, that seems more of an exception.

Ivan Lehon 49:34

So, maybe let's talk a little about—because we are a panel about liquidity—so, with the longer hold periods, and maybe Dean, I'll ask you, how are you thinking about operational value creation, working with the portfolio companies, getting them ready, the exit readiness for an event?

Dean Mihas 49:55

I think, as it applies to GTCR, I would say, for us, it's kind of business as usual. We focus on our sectors. Those are the lanes we play in. We very specifically have a strategy where we're building relationships, setting up partnerships with great CEOs, great management teams, to go after companies that we think we can develop and grow and make into great companies. So, that hasn't changed, and when we think about sourcing and when we think about companies we're going to invest in, I would say that our playbook and our strategy is not changed. We talked a little bit earlier about when you're underwriting a deal, you are thinking about exits, as much as ever, and we talked a little bit about the IPO. But for us, it's doing the same thing. Frankly, our stats, if we look over the last 20 years, our average hold periods have not changed. So, we have a five-plus, five-and-a-half, six-year average hold period, and that's not really elongated. And on the liquidity front, again, just speaking to GTCR, we had a record year last year by a long stretch in terms of realizations, and we're starting off well this year. But again, it comes back to just sticking to your strategy, trying to build great companies, working with great management teams, and not getting carried away in the heighty-heights of the markets, trying to be disciplined when you're deploying capital. But I would say for us, it's a little more business as usual. We've always had a focus on liquidity. I know LPs are looking at this very closely now, but we've reported stats like what percent of our NAV we sell every year, starting NAV. And that number for us has averaged in the low 30 percents for the last 10 years. So, that's stuff we look at very closely. The firm's always been focused on keeping the cycle going. Frankly, if you're not returning more money than you're calling, something's wrong with the model, and I don't think those firms will be around for a very long time if they don't get that right.

Ivan Lehon 52:20

Yeah. And Jonathan, actually, you alluded to this earlier. When you think about the pressure you're under, looking at a liquidity event, if you're being, I don't want to say forced, but to actually where your marks are, are you looking at extending the life of the company that you're looking at or you're working with, versus selling it a few years down the road, where you'll have a higher valuation but your marks are set?

Jonathan D. Sokoloff 52:56

Look, just remember, an IRR is only accurate when you sell. Every other IRR number you hear quoted by anyone is based on numbers we make up every quarter with the best of intentions, with third parties validating them, and who knows how accurate they are? It's only real when you sell. Now, you have to keep track of multiples in the sector where your company is, and what you probably have to do in some cases, while you hold a company, you have to lower the multiple you carry it at versus the multiple you paid. Now, multiple compression is lousy math in our business. We've kind of had multiple expansion for 20 years, and now we're starting to have some multiple compression. So, if you don't do that prudently, then you're going to be stuck because you can't sell your company at your mark, and—look, today, to Dean's point, our investment committee meetings are different today than five years. We used to have two parts of the committee. Do we want to invest in this business? Yes, no. How will we grow this business? Can we double, triple it? Whatever. So now we spend an equal amount of time—how are we going to sell this business? Who are we going to sell it to? What might we sell it at? And let's make sure in five or six years when we go to sell it, if we've tripled it, that the next owner still thinks they can double or triple it. If we squeeze all the juice out of the lemon, that's as the term goes, then you're dead. No one's going to buy it, or, if they're going to buy it, at half the multiple you paid. So, you have to go into your underwriting very focused on not just your holding period but the next person's holding period, whether it's a strategic, whether it's Fidelity buying it, whether it's PE, whether it's CV, whether it's whoever, because that's the questions we get time and time again. And so, it's an important discipline and it's a smart discipline.

Paul Taubman 54:52

And you need to be more thoughtful and more creative about exit strategies. So, it can't all be about how you're going to deploy the capital. It's how do you most efficiently and effectively create monetization. So, we just spent some moments a bit ago talking about all the challenges in the IPO market. But, oftentimes, taking a portfolio company and merging it into a preexisting publicly traded company, many of the issues we just talked about go away. So, you may not have the right capital structure to go public, but maybe on a proforma basis, contributing this business to an existing public company, the capital structure is right-sized on day one. You don't have to worry about discount to fully distributed value because you have a seasoned security. You may not be large enough, but the combined company has more scale. You may not be eligible for index inclusion as an IPO, but, all of a sudden, you're in the index and the index has only grown because they've issued stock. Now, that's not the answer for all. It's not an answer for a majority. It may only be a distinct minority, but that sort of creativity now needs to be on the table. This is a holistic

approach where you need to open up other fronts because, otherwise, you're going to have high-quality companies that won't be able to get liquid on an attractive valuation in a reasonable time frame unless you open up new liquidity options. And I think that today is the big issue.

Dean Mihas 56:25

Yeah. I'd say one other dynamic, just picking up a little bit on Jon's point too, this dynamic where you're stuck—there's bad reasons to hold companies, which are, performance hasn't been great, market conditions aren't great to sell, maybe your mark is too high and value expectations are too high, and you're stuck and you're not compounding, and that's a problem because it's going to drag down the IRRs. On the other hand, you might have really good companies that are compounding really well and could be very meaningful to the fund—moving the needle for the fund when you've got a few of those companies—and you could be caught in a situation where by trying to manage, by being forced to manage, liquidity, you're almost forced to sell your winners early, which kind of doubles down on your problem. And so, that's also an interesting dynamic that I think GPs are trying to grapple with and manage. But...

Yann Robard 57:33

I don't know, if you fast-forward a few years, you might actually get in a position—because the exit, like the IPOs are getting fewer and fewer—where you actually have a company that is owned by multiple GPs. And it used to be that everybody goes in and out of the company at the exact same time. You might end up in a situation where somebody comes in and then does an equity recap to another GP, and then that GP does a continuation vehicle. And then essentially what's happening is that people are coming in and out of that company at different times through different liquidity mechanism. But if you believe that private equity is growing from 5 trillion to 20 trillion, and we need new ways of generating liquidity, it might not all be like we all exit at the same time or we all enter at the same time. It might be different GPs entering and exits at different times. And by the way, the co-investors underneath that, they might wait and say, "Wait a second. You know what? It's hit two times money. I'm good. The GP's not selling. I'm going to use the secondary market to also tactically reallocate from that perspective." So, I think we're moving into a world where it may look a little bit different, and it's not—again, AI is not tomorrow, but over the next five years, those innovations around how we can inject liquidity and private equity in a world where there's more and more private companies out there might evolve.

Ivan Lehon 58:46

Yeah. And I think that works well into the operational value creation thesis that a lot of the PEs are using. Because to Jon and Dean's point, you have to have growth, and it's not just in cost takeout, it's not just—it actually is in the growth levers that you can pull for the companies to make those companies sustainable and viable companies for the future. Sorry. I'm the moderator. Go ahead.

Dipanjan "DJ" Deb 59:18

Sorry, what's the question?

Ivan Lehon 59:22

There wasn't one. I was trying to add a little humor.

Dipanjan "DJ" Deb 59:25

No, no, but, first of all, I agree with Yann. I think the market's going to evolve. And I do think AI is a profound shift. Like, as I said, the only meta wave that's similar I've seen is the internet. We have an operating team of over 55 people that are all ex-operators or ex-CEOs, CFOs, CROs. Nobody's a consultant. I want doers versus opiners. And we had our CXO conference two weeks ago with every C-level executive in all our 70 portfolio companies, and I said we're in DEFCON 1. They have not seen the deterioration in their revenue and EBITDA yet, but their terminal multiple may have been impaired. So, you need to reinvent yourself so someone will want to buy you, and to do that, by the way, I think near term, you may actually have to sacrifice margins, and longer term, because you need to create revenue growth—because even if you create EBITDA growth, you may still have no terminal multiple. You need to create some revenue growth where the future buyer wants you. And so, that may mean going in and this and going out. What that means for the private equity industry, I think unfortunately, I think for the last three or four years, those vintages are going to underperform on a historic measure. And I think going forward actually, the next three or four years will be like '01, '02, '03, '09, '10, '11. I think those will be great vintages. But I think the last three or four years' vintages will actually underperform. Long term, we're trying to manage our business to a multiple of money. And, I know the LPs care more about IRR, but I think eventually, if you just focus on building good companies through operating improvement and growing revenue, and you have some margin leverage, there will be a buyer. It may be less than you wanted, as Jon Sokoloff said, but it'll still be adequate, and I think we'll end up outperforming the public markets because public markets are mostly run by CEOs, who think with their hearts and not their brains. And 80 percent of public market CEOs don't run their companies well, and most public market board members are there because they can tell their friends at a country club they're on a public board. So, there's no real governance. And so, we can actually make change, which public companies can't. So, I think we'll outperform.

Ivan Lehon 01:01:37

Jenny, you had—then *[inaudible]*

Jenny Chan 01:01:39

Oh, I wanted to go back to what Paul said, because I don't—it's not clear to me that the type of skill set that is required for the holistic approach that he's referring to is being appreciated enough, or if it is, it's not being necessarily shared to LPs. And whether you have it in-house or not, just being aware that that skill set is important going forward is—I think it'll be a differentiator, and it will help define who the winners are.

Ivan Lehon 01:02:18

Jon?

Jonathan D. Sokoloff 01:02:19

So, I want to respond to a couple comments my panelists have made, because Dean made a good point about—you don't want to sell your good ones too soon because some of these longer-term holds, it can turn from 2, 3, 4X, to 5X or really move the needle on our funds. So, and we talk about the 12-year party from kind of 2010 to 2021, where everyone looked smart, everything went up, and we generated huge DPI and returns through leverage recaps. And we'd hold something three or four years, we'd do a recap, we'd send all the basis back to our LPs, and then we can hold it six, seven, eight years and do great. That's largely over, much harder to do today. So, what did we do? We were about to go fundraising about a year ago. We said we need DPI. What are we going to do? So, we had three of these really, we thought, compounders we wanted to keep six, seven, eight years. And let's just say for easy math, they were carried at 2.5X. So, what did we do? Well, we said we want to sell 40 percent of each of those companies to someone else to get our LPs their basis back. And we found other PE firms, actually, to buy 40 percent of what we thought were great businesses. We didn't really want to sell them, but we thought it was a good fund management decision to sell 40 percent. So, if that new investor then gets a 2X, we'll now end up with a 4X. We would've had a 5X, but instead we'll get a 4X, and maybe the companies will mess up and we're happy we did the 2.5X. So, that's the kind of stuff that we're all doing. And you just got to change your playbook a little bit at different times. And as far as AI disrupting all of our companies, we don't really have the answers, but I'll tell you as we're pretty much a customer of software companies. And the reason software's been such an amazing sector to invest in or lend to is because we, the customer, feel we've been taken advantage of for 20 years. So, we view the software vendors as somewhere between annoying and drug dealers, okay? Every year they come to you and they sell you a product, and it's the greatest, and we're going to make it a little better. And then you're hooked. You can never get out. And they call you every year. "It's just 5 or 10 percent, raising prices. Don't worry about it." So, we can't wait to get rid of that. We hate them. Now, so it may not go from 22 to three, but we don't want to pay the same prices. We want to pay less money. We want to get more features. We want discounts. We want the whole model to change. Now, what's going to happen? Something in the middle of all that will happen, but the way it's been done for 20 years, from our view as a customer, is over.

Dipanjan "DJ" Deb 01:05:00

I agree with Jon, by the way. No, I totally agree with Jon. And this is what—and by the way, software multiples were coming down before Claude dropped its nine lines of code because growth had decelerated from 2021. People overbought during COVID. People overbought massively during COVID because they thought that was the new normal. And so, that growth rate had been declining. I do think—that's why I said—I think software companies, to protect their moats, will need to price differently, will need to actually create more functionality for a cheaper price. And I think that will create more dispersions of winners and losers.

Ivan Lehon 01:05:36

Right. All right. So, we have time. We're going to pause before we do final comments. We have time for a couple of questions. And I can't really see because the lights are directly in my eyes, but I think there's someone right—yep.

Audience Member A 01:05:56

[inaudible]

Ivan Lehon 01:06:03

We can't really hear you. If you could take the mic.

Audience Member A 01:06:06

I think back in the day, I don't know if it was 30 or 35 years ago, I think Mike Milken was credited with creating the concept of "at the money." So, if there was a Leonard Green at the money vehicle, where you could have $1 to $2 billion of liquidity every single year, in a vintage, offering it to your LP—so this is an LP solution, not a GP solution—and you wouldn't have to take necessarily the discounted mark. By providing this LP solution, taking some percentage pieces of your portfolio companies, might that be interesting to you?

Jonathan D. Sokoloff 01:06:49

You mean to sell a small piece of our portfolio at NAV on a regular basis?

Audience Member A 01:06:54

Creating—or maybe at a discount, where you would—no. You're not going to have to take the hit. It's not a GP. It's an LP. If the LP wants liquidity, just like when a company goes public, there has to be some kind of a 10 to 15 percent discount. So, this is going to be a synthetic market. And we all know there's $8 trillion trapped between private equity growth and venture. There's also $8 trillion sitting in 401Ks. It's something I'd actually like to talk to you about. It's something I've been working on. I'm just curious if this is something that would be interesting to any of you, to be able to create liquidity on an annual basis in some kind of a new format for the LPs.

Jonathan D. Sokoloff 01:07:42

Maybe. Look, the secondary market is giant. LPs have a way out today, but maybe it's at $0.90. But there wasn't—now there's a way out. You can sell pretty much everything. Maybe bigger discounts in growth or bigger in venture, but there's liquidity out there.

Ivan Lehon 01:08:00

Is there another question—or a question?

Audience Member B 01:08:03

Hi. Could—Yeah, sorry. Would each of the panelists just quickly touch on their perception of the conflicts? It can't be a win-win all the time, and I think there was some implicit statements around some of the conflicts. So, as LPs in the audience here, what should we be sensitive to?

Ivan Lehon 01:08:26

Who wants to take that?

Jenny Chan 01:08:27

Should I start? Oh, no, you start.

Dean Mihas 01:08:30

Go ahead, Jenny.

Jenny Chan 01:08:32

So, we spend so much time on conflicts of interest now, more so than we ever have because I think right there was a—it wasn't just clear-cut before. As you explore these different potential paths to liquidity, there's different criteria. So, if you have a sense that the GP is setting terms that really disfavor the LP, I think that's just a bad sign in general, regardless of what the asset is. But there are more than enough ways to come up with fair structures. So, it's a little surprising to me when we don't encounter something that's fair because just the nature of being the buyer and seller, on both sides is an inherent conflict.

Yann Robard 01:09:37

I think my answer would be, the industry will grow if it's right process, right structure, right mindset. And if GPs are doing it for the right reason, taking care of all stakeholders during that whole process. I think as an LP, you are going to be able to pick with your wallet when that GP comes back if you feel like you've been mistreated during that period of time. And so, there are guidelines that are being put in place. Has the industry been perfect? No, it's human, so it's through an evolutionary state, but this industry will only thrive in a situation where people behave. And, in the absence of that, it will go away. And, as an LP, you get to pick whether or not you continue to invest in that GP in the future.

Ivan Lehon 01:10:27

Time for one more question.

Audience Member C 01:10:29

Thank you, all. Thank you all for the panel. My question is maybe more about venture secondaries than private equity secondaries, but I think as it's taking longer and longer for companies to go public, as more companies can compound growth for a longer period of time, the pressure around liquidity—I just wonder the constructs of a 10+2 fund or different types of fund structures that have been the basis for many GP-LP relationships until now, how you see those going forward? There's also more people looking at permanent capital structures or different ways to manage money over a longer period of time, and, I'm just curious, is the 10+2—or the whatever plus whatever—still the model in some decades from now or do you see any meaningful evolutions to this? Thank you.

Ivan Lehon 01:11:15

Who wants that?

Jonathan D. Sokoloff 01:11:17

What is 10 +2? What do you mean?

Audience Member C 01:11:18

So, like a 10-year fund with 2-year extension. So, at least in venture, back in the dot-com boom, companies went public in four years. And so, if you invested in a company, that was your plan to get liquidity. But now, on average, companies taking more than a decade to go public means that a seed-stage investor is almost certainly going to need a lot of different secondary solutions. And it's this balance between GPs and LPs, like—yes, it's a 10-year fund because that's what—LPs don't want to lock up money for more than a decade. Yet, on the other hand, companies are staying private for longer and longer. So, just figuring out what is—these structures seem more and more forced as companies stay private for longer. So...

Dipanjan "DJ" Deb 01:11:57

I think realistically it's like 10+5 or 10+7. If you're in a venture investment—and I think there will be, and Yann alluded to this, and Paul alluded to this—there will be new formats for LPs to get liquidity in venture companies, because it's necessary. Because A, they're not going public as much, and B, they're taking longer to get any sort of liquidity. So, I think those markets—look, there's very smart people in our industry, and the industry's evolved with new solutions, and I'm sure there'll be a new solution for those.

Yann Robard 01:12:30

It goes back to—oh, sorry. Go ahead.

Paul Taubman 01:12:32

Look, to me, the big issue is the asset class needs to grow, which is the secondary asset class is dramatically undersized relative to the opportunity and the need in the broader ecosystem. And, whether you're talking about regular way private equity, you're talking about venture, you're talking about credit, you need to get the AUM meaningfully expanded, and there needs to be an appreciation for the efficacy of the asset class, the attractiveness of the asset class. And the more you do that—you also address the other question about conflicts, the ability to go out. And it's one thing when you're going out to the five logical suspects who control so much of the AUM, and you're getting one price bid, versus if you have a much broader, larger, more robust market in which to test all of this. I think you get to a virtuous circle as this industry continues to evolve. But we're just identifying all of the needs. The solution needs to come from an appreciation that, as an asset class, it's a highly attractive asset class.

Yann Robard 01:13:40

Replace the four to six years with eight to 12 years here in the LPs, and then the secondary is the bridge, right? The liquidity.

Audience Member C 01:13:48

So, fund structure is mostly the same, just more secondary liquidity as options.

Ivan Lehon 01:13:51

So, we're going to—sorry. We're going to have to wrap up, so maybe just real quick parting words. What does '26 look like? I'll start with DJ.

Dipanjan "DJ" Deb 01:14:00

I think it's an amazing vintage. Great opportunity.

Dean Mihas 01:14:04

Busy year.

Jenny Chan 01:14:05

Surprise to the upside.

Yann Robard 01:14:08

It's normalization to historical average of private equity.

Jonathan D. Sokoloff 01:14:12

Tough year.

Ivan Lehon 01:14:15

Paul, final word.

Paul Taubman 01:14:16

I think it looks a lot like 2025. I really do.

Ivan Lehon 01:14:20

All right. Well, thank you all. This has been amazing, and I hope everybody enjoyed.

Dean Mihas 01:14:26

Thank you, Ivan.

Announcer 01:14:28

We hope you enjoyed the discussion. Be sure to utilize the mobile app to stay up to date on the latest programming changes. As you exit the room, please remember to bring your belongings with you.

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