Secondaries Investor

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FIRMS & FUNDS

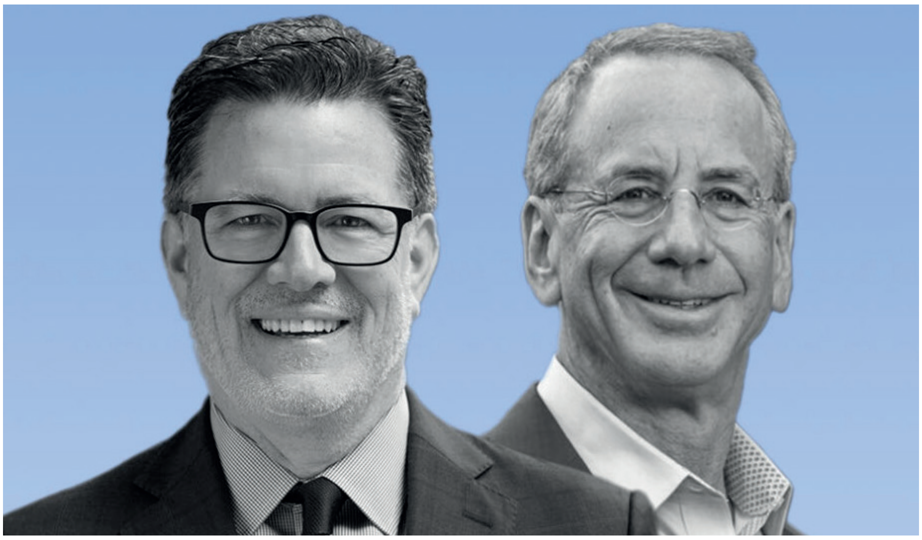
Manulife: Search for alpha in secondaries market sparks LP interest

Manulife Investment Management's GP-led secondaries programme will seek out concentrated deals from the large-cap space through to the lower mid-market.

Manulife Investment Management held the final close for its debut vehicle, private equity-focused Manulife Strategic Secondaries Fund, earlier this month, as Secondaries Investor reported at the time.

While global co-heads of the GP-led secondaries strategy, Jeff Hammer and Paul Sanabria, declined to disclose how much the standalone, closed-end fund had raised, they confirmed the overall programme focused on concentrated portfolios had reached $610 million in aggregate commitments.

Secondaries Investor spoke with Hammer and Sanabria about how the programme will seek to differentiate itself from other buyers in the market and where it sees the most attractive opportunities in the GP-led market.


Paul Sanabria and Jeff Hammer

What feedback did you receive from investors who backed your fund?

Jeff Hammer: The ability to construct portfolios with laser-like precision through GP-led investments was well received by the investors we approached. That is why the third-party investors came along with us: because they see a sea change in the secondaries market that is going to go after what we call the 'secondary alpha'.

What is our proposition? As a specialist investor, we believe we are differentiated from those traditional secondaries players who… invest in traditional LP deals and GP-leds. We believe that differentiation is a source of strength, and will ultimately… produce premium returns, what we call the secondary alpha. That message was particularly well received across our investor base.

Your strategy is focused on concentrated GP-led transactions. What are you explicitly seeking from those deals?

JH: Usually the divide in the market is between single-asset continuation vehicles or continuation funds and multi-asset. We don't draw the line there: we think both investments have a purpose in a portfolio. The line we draw with respect to concentration is generally around whether the opportunity comes [to] us with less than four assets.

Clearly, in that subset, many are single-asset. We have already invested in multiple single-asset continuation funds and we think they have a very important role in portfolio construction – but so do multi-asset continuation vehicles, and we routinely look at those.

What other defining characteristics does your strategy have?

JH: We are a relative-value investor. We believe there are certain market environments in which the large-cap, concentrated GP-led deals will provide the best risk-return opportunities… and we believe in certain environments, the mid-market [or lower mid-market] will provide the best risk-return opportunities for GP-led investing.

We would say once rates started going up in March 2022, you began to see a very dramatic shift from the large-cap deals to the lower mid-market… Those were, on a risk-return basis, we felt, more favourable as we leaned into that. We think, as a manager, if our investors are giving us [the] lead to invest across the GP-led market, we should very carefully scan for those better relative value opportunities. It stands in contrast to some folks who focus only very large concentrated deals, and other folks who concentrate on very small deals. We want to be flexible enough to take advantage of the different environmental conditions supporting these deals.

Paul Sanabria: All capital is not equal; what you see in the marketplace, particularly for some of the more sought-after opportunities – the trophy assets, the higher-quality sponsors, the better sectors – is that those sponsors and the bankers that advise them oftentimes can essentially compose the investor base of the CV.

It really is extremely helpful to be on a platform like Manulife – that is sponsor-centric, that provides capital to investors across their needs, whether it be at point of fundraising or at the asset level, co-investments, junior credit, senior credit, and then, of course, GP-led, which is characterised as mid-life liquidity.

That ability to be a solution provider – provide capital across those different strategies – makes Manulife a very desirable investor in the GP-led marketplace. So we've seen that throughout the 18 transactions that we've done.

Do you have a preferred position on GP-led deals that you will be seeking out?

JH: Our [deal size] range of $25 million-$125 million puts us in different positions depending upon the size of the secondary transaction. Clearly, for the multibillion-dollar secondaries, we are not going to be in a lead position; there, we look very carefully at the sponsor and at the company, and we make a very clear-eyed assessment as to whether we will produce the return for which we're underwriting, given the fixed set of circumstances.

On the other hand, when a secondary is $200 million-$500 million, which I would argue defines the mid-market… or the lower mid-market, we are very much interested in leading transactions or co-leading transactions.

The secondaries market is a collaborative market. Many of these transactions, even at the low end of the market, end up being club deals, and those club deals allow for a collaboration between the investors. So whether we are a lead or a co-lead, we're not particularly bothered as long as we're making sure that we're getting to the best companies alongside the best sponsors at a price that's going to [suit] our returns.

What opportunities do you see today?

PS: The large-cap part of the market started a downturn, if you will, when the interest rates started to rise and there was a question around valuations. That's when the lower mid-market and mid-market sponsors started to come into the market in higher participation levels. We're starting to see some of those larger sponsors, as valuations have come together, [return to market].

It's the public market appeal – as there's been costs in the market [and] perhaps some view that we might be close to an IPO window, you're starting to see valuations come together a little bit, but you're still not seeing that reflected yet in the exit statistics. So the need for GP-led secondaries, the need for that liquidity by both sponsors and limited partners, is still very high.

This is an abridged version of the conversation Secondaries Investor had with Manulife's GP-led secondaries team, which has been edited for clarity.