

Firm/Strategy Update: Lexington | Lexington Capital Partners “LCP”) IX & X



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Son Le and Pat Burkett met with Emily Elliot on a video call on March 6, 2023.

1.Key Takeaways:

- **Firm:** Lexington Partners was acquired by Franklin Templeton, a global investment management organization, for \$1.75 billion. One year after the

acquisition, the acquisition hasn't had any material issues; and both companies are on track to realize the expected synergy.

- **Strategy:**

- Lexington Capital Partners IX ("LCP IX"), (2018 vintage), a global secondary acquisition fund with total capital of \$11,906.6 million, was formed primarily to acquire a diversified portfolio of interests in global private equity and alternative investment funds through negotiated secondary market purchases. LCP IX completed its investment period on March 31, 2022, and entered the harvest stage
- Lexington Capital Partners X ("LCP X"), with a target capitalization of \$15 billion, has been formed to continue to acquire a diversified portfolio of interests in global private equity and alternative investment funds. The Fund is under the capital raising process with \$12 billion already committed. The Manager expects to have the final close in 2023 YE with a total commitment of \$15-20 billion.

- **Team:** The acquisition hasn't had any impact on the investment team. Seven principals were promoted to partners: five in secondary and two in co-investment.

- **Performance:**

- LCP IV: As of September 30, 2022, LCP IX generated 1.6x/1.6x gross/net MOIC and 31.5%/43.6% gross/net IRR (net IRR is not considered meaningful due to the use of a revolving credit facility)
- LCP V: As of September 30, 2022, LCP X was marked at 1.2x gross MOIC after committing \$6 billion across 39 transactions. There is no IRR available since the Fund was still in the first inning of the investment period.

- **Current/Upcoming Fundraises:** Middle Market secondaries Fund V ("LMMI V") and Co-Investment Fund VI ("CIP VI").

2. Firm Update

- Since its founding in 1994, Lexington has established itself as one of the world's largest independent managers of secondary private equity and co-investment funds. Lexington has raised more than \$70 billion in aggregate commitments from more than 1,000 institutional investors, deploying capital across more than 4,700+ secondary, co-investment, and primary interests. Lexington is investing from its \$14 billion flagship global secondary fund, its

\$2.7 billion middle market secondary fund, and its \$3.2 billion co-investment vehicle.

- Lexington Partners was acquired by Franklin Templeton, a global investment management organization, for \$1.75 billion. The transaction, closed on April 1, 2022, is expected to enable Lexington to access an extensive investor relationship network and operational resources from Franklin Templeton. Lexington continues to keep its brand and offices and has operations overseen by an operating committee that Lexington's President manages. Lexington uses iCapital as the backend for their feeder vehicle while utilizing Franklin's network of RAs and banks to raise capital. One year after the acquisition, the acquisition hasn't had any material issues; and both companies are on track to realize the expected synergy.

3. Strategy Update

- Lexington Capital Partners IX ("LCP IX")
 - LCP IX (2018 vintage), a global secondary acquisition fund with total capital of \$11,906.6 million, was formed primarily to acquire a diversified portfolio of interests in global private equity and alternative investment funds through negotiated secondary market purchases.
 - LCP IX completed its investment period on March 31, 2022, and entered the harvest stage. Unlike other managers experiencing distribution challenges, LCP IX continues to see consistent distributions (\$2.4 billion since inception) and is ahead of the plan regarding DPI (0.26x).
 - As of September 30, 2022, LCP IX had committed \$11,102.5 million to acquire 120 secondary transactions and 743 private equity interests managed by 243 sponsors. The Fund negotiated an aggregate purchase discount of \$2,001.7 million, or 17.4% to market value.
 - LCP IX committed \$584.0 million to 165 Primary Funds (5% of the total allocation). The Manager believes that LCP IX's primary program will generate future secondary opportunities and enhance ongoing relationships with leading global sponsors, which is essential given due diligence and valuation review with general partners. They also expect the primary program to increase the cash return multiple for LCP IX modestly. The Manager receives a reduced management fee and no carried interest on LCP IX's Primary Fund investments.

- As of September 30, 2022, LCP IX's partnership portfolio is 65% buyout, 20% venture capital, 11% growth capital, and 4% other alternatives, mostly credit, energy, and infrastructure.
- Approximately 77% of LCP IX's exposure is based in the United States, with 14% in Europe and the U.K., 8% in Asia, and 1% in other growth markets. The Partnership has entered into Euro, Sterling, and Japanese Yen forward currency contracts to manage foreign exchange risk on some non-U.S. Dollar-denominated assets.
- CAPTRUST clients committed \$5 million to LCP IX.
- Lexington Capital Partners X ("LCP X")
 - LCP X, with a target capitalization of \$15 billion, has been formed to continue to acquire a diversified portfolio of interests in global private equity and alternative investment funds.
 - As of November 2022, LCP X has committed to invest approximately \$6 billion to acquire 29 secondary transactions and 176 interests managed by 72 sponsors. The Manager has negotiated a meaningful purchase discount of \$1.1 billion, or 23% to market value, on purchases that have been, in the aggregate, 73% funded at acquisition.
 - LCP X has received commitments of over \$12 billion and expects to hit the \$15 billion target in June and potentially exceed it by a final close in 2023 YE (\$20 billion capped). LCP X uses iCapital to white label its feeder vehicle for commitments less than \$5M. Historically, they took \$1-5M commitments as individual line items.
 - The Manager expects to allocate 60-70% to buyout, 10-15% to VC, 10-15% to growth, and 5-10% (credit, infra, energy), and broadly diversify the portfolio across IT (highest), consumer discretionary, health care, industrials. Geographical allocations are expected to be: 60% US, 30% Europe/UK, 10% ROW.
 - CAPTRUST clients have committed \$25 million to LCP X.

4. Team

- Two senior partners transitioned to senior advisors when the transaction closed: Lee Tesconi and Duncan Chapman (Boston and NYC offices, respectively). Lee has been advising Wil Warren and Pål Ristvedt, the co-chairs of the Investment Committee. Duncan advises on investor relationships and the operating committee. The acquisition hasn't had any impact on the investment

team. Seven principals were promoted to partners: five in secondary and two in co-investment. The firm plans to hire two or three investment offices at different offices and continues to build out fund administration, investor relations, and compliance teams.

- Each investment team member is responsible for 25 – 30 GPs throughout their career. They develop relationships at different levels of seniority at these GPs, having different touch points depending on the size of the managers. They also underwrite the deals and build valuation models once a purchase opportunity occurs. A deal team includes three to four investment professionals: a senior partner, a principal/VP, and one or two associates. The team does bottoms-up underwriting on 80% of value drivers for a set of portfolio companies in a given deal.
- Franklin acquired 100% of Lexington but gave back 25% ownership to the investment team with a reserve for future partners, which broadened the ownership amongst the partner group.

5. Performance

- LCP IX
 - As of September 30, 2022, LCP IX had a Reported Value of \$12,584.6 million plus distributions of \$3,771.4 million for a total value of \$16,356.0 million, or 1.59x invested capital of \$10,275.0 million (gross MOIC). The annualized gross internal rate of return ("IRR") to the Partnership was 31.5%
 - The net multiple as of September 30, 2022, is 1.6x. The net internal rate of return ("IRR") as of September 30, 2022, is 43.6%. However, Lexington does not consider that figure meaningful due to the use of a revolving credit facility (\$1.72 billion in outstanding balance as of September 30, 2022), which is used to enhance the returns and efficiently manage the acquisition program and working capital. Given the current market environment, the Manager didn't anticipate many exits in the next two years, which will reduce the IRRs.
 - After quarter end, LCP IX called \$1,428.8 million (as of October 12, 2022), increasing total contributed capital to \$9,428.1 million.
 - LCP IX also distributed \$209.0 million (as of December 29, 2022), bringing total distributions to \$2,422.1 million, or 25.7% of current contributed capital.

- LCP X
 - As of September 30, 2022, LCP X was marked at 1.2x gross MOIC after committing \$6 billion across 39 transactions. There is no IRR available since the Fund was still in the first inning of the investment period. 41% of the purchase price was structured with interest-free deferrals of payment (paying 1/3 at close, 1/3 a year later, 1/3 2 years later) to enhance IRR.
 - 90% of the exposure was acquired post-March 2022, incorporating today's pricing environment, potential recession, and the lack of exits into their underwriting. Moreover, the Manager didn't see much competition for large portfolio sales, which enabled them to select high-quality assets. Lexington also has a good reputation as a buyer of choice, given its certainty of execution. Because of those drivers, LCP X got an attractive 23% purchase discount.
 - The Fund plans to make the first capital (7.5%) in March 2023. The 2022 asset purchased was made by the revolving credit (\$3.3 billion facility); however, the Manager expects to use less debt due to the increasing interest rates.

6. Fund Raising | New Products

- Middle Market secondaries Fund V ("LMMI V"):
 - LMMI V will start raising in the 2H half of 2023. Lexington typically would have started raising earlier, but they needed capital for LCP X, and they don't like to raise both at the same time; thus, they have waited until LCP X completes the process.
 - LMM V targets approximately \$3 billion (TBD final amount) and focuses on acquiring interests from portfolios less than 50% funded in the U.S. middle market. It took more work to invest in Fund IV, but with the current denominator effect, they think should be more supply.
- Co-Investment Fund VI ("CIP VI"):
 - The Fund is currently in the market. The Fund focuses on a diversified portfolio of co-investments, mostly in buyout deals, from small to mega, with an average check size of 10-20M. The Fund plans to invest in 30-40 deals a year over four years across U.S. and Europe markets.
 - CIP V was raised from 13 large institutional investors who aggregate their co-investment deal flows and LCP's relationships. The average commitment

was \$250M per client. However, this amount will be reduced to \$20M for CIP VI, which will be marketed broadly.