LOMBARD ODIER
INVESTMENT MANAGERS

Reasons to invest

Lombard Odier Private Equity Opportunities

For Swiss pension funds only • Private Equity July 2020

Why invest in Lombard Odier Private Equity Opportunities?

- Easy access to two types of private equity exposure (secondary and co-investment) offering a potentially attractive risk-return profile through niche market transactions.
- An existing portfolio provides immediate exposure (at acquisition cost) from the initial capital call and a reduction in the J-curve.
- Rapid capital deployment and risk reduction thanks to broad diversification from the outset.
- Long performance history since 2009 on the secondary strategy, with a net internal rate of return (IRR) above 20%.
- Interesting balance between secondary investments in diversified funds and co-investments with costs significantly lower than those of traditional private equity funds.
- Investment foundation under Swiss law for Swiss pension funds, with independent governance, and interest aligned with investors.

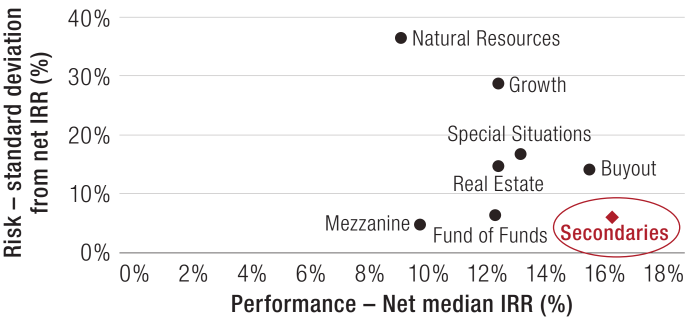
Fund details

- Investments in two existing target funds (Lombard Odier Secondary Fund III and LO Co-Investment Fund), and a dedicated third vehicle
- Performance goal: Target IRR of 15% (forward annualised return)[1]
- Vehicle: Avadis Investment Foundation, active for more than 20 years in investment for pension funds, with more than 100 affiliated funds. Only for Swiss pension funds.
- Target size: CHF 150 million, 35-40 secondary positions and co-investments
- Simplified and rationalised calls for funds (initial call, then around 5% of the commitment at the end of the quarter) for the initial years, to the extent possible.
- Management fees between 0.9% and 1.1% p.a. (depending on the amount committed), no double layer of fees
- Alignment of interests, with a profit-sharing system calculated based on the portfolio's consolidated net returns.

Why access transactions on the secondary market?

A private transaction on the secondary market involves buying a stake in an existing private equity fund that is closed to investment subscription. This type of transaction offers the substantial advantage of enabling faster deployment of capital in portfolios that are mainly invested (giving high visibility on the underlying companies), generally with a discount, which helps reduce the effect of the J-curve. Only exposure to funds of funds or mezzanine borrowing have been less risky historically, but at the price of much lower returns (cf Figure 1).

FIGURE 1: RISK AND RETURN BY PRIVATE EQUITY STRATEGY



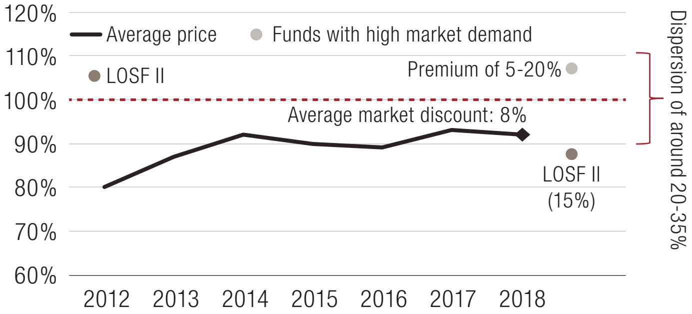
Note : Data at 31 December 2018 (sourced on 12 July 2019). Funds from the years 2006 to 2016.
Past performance is not a guarantee of future results.
Source: Preqin, Lombard Odier analysis.

[1] Target returns or risk are a portfolio construction objective. They do not reflect historical risk/returns and cannot reflect real risk/returns.

Secondaries: niche positioning in small secondary transactions that are less competitive

The secondary private equity market has developed strongly in the last twenty years, moving from 0.3% to 1.5% of total assets for private equity. This is also a highly concentrated market, where around twenty investors represent more than 80% of transactions. Major investment subscription to these funds generate very strong pressure on capital deployment, with price rises on large transactions leading to a fall in expected returns. Against this backdrop, the discounts to net asset values (NAV) have continually reduced, from 11% to 8% on average since 2016. In the current market, high-quality funds are currently trading at a premium to NAV of between 5% and 20% (cf Figure 2).

FIGURE 2: AVERAGE SECONDARY PRICING (% OF NAV)



Note: For illustrative purposes only. Average price for all the funds. Average price for LOSF II based on transactions executed up to 31 January 2018. Source: Greenhill 2018, Lazard 2018, LOIM.

This shows a niche for the smallest transactions that are less intermediated and therefore less competitive, but with regular deal flow. These small transactions (generally between USD 10 and 20 million) are at the heart of the investment strategy of Lombard Odier Secondary Fund III. For illustrative purposes, transactions in this market segment by the previous Lombard Odier Secondary Fund II were completed with an average discount of 15% for high-quality assets in recent years.

Co-investments: potentially attractive targeted exposure with lower management fees than traditional private equity funds

Co-investment involves investing directly in an unlisted company, alongside the private equity fund leading the transaction ("General Partner"). The co-investor is usually passive, with the General Partner in charge of value creation at the level of the underlying company.

The co-investor can access attractive transactions that have been subject to all the prior analysis by the General Partner, with lower fees compared with a traditional private equity fund. Co-investments therefore offer potential returns above those of traditional private equity. Furthermore, as a direct shareholder, the co-investor benefits from all the transparency about the development of the underlying company.

The co-investor can choose each transaction separately depending on the business model of the target company and specific features of each transaction. Co-investors can also diversify their portfolios by investing alongside different General Partners, depending on their expertise.

The investment rationale of this underlying strategy is based on the following three main characteristics:

- Access to high-quality deal flow thanks to Lombard Odier's relationships, with more than 60 managers worldwide, often hard to access, benefiting from robust historical performance and offering exclusive co-investments;
- Accelerated capital deployment over 3 years versus 5 years for a traditional private equity fund, in order to build a portfolio that is diversified in strategy, geography and sector;
- Attractive fee structure as co-investments are generally offered with lower management and performance fees: TER should therefore be significantly lower than for traditional private equity.

Lombard Odier Private Equity Opportunities: investment strategy

The Lombard Odier Private Equity Opportunities investment allocates its capital to:

- Lombard Odier Secondary Fund III;
- LO Co-Investment Fund;
- Secondaries and co-investments, in a third dedicated vehicle.

The secondaries strategy should represent around 60% of the investment exposure and the co-investment strategy around 40% in the long term.

Lombard Odier Private Equity Opportunities will invest in three funds subject to Luxembourg law, two of which have already started investing. LO Co-Investment Fund has been at the active investment stage since the end of 2017. With more than ten companies in its portfolio to date out of a total of around 20 deals ultimately, this fund offers significant visibility on the composition of its final portfolio. Lombard Odier Secondary Fund III has been actively investing since the end of 2018 with several investments made to date.

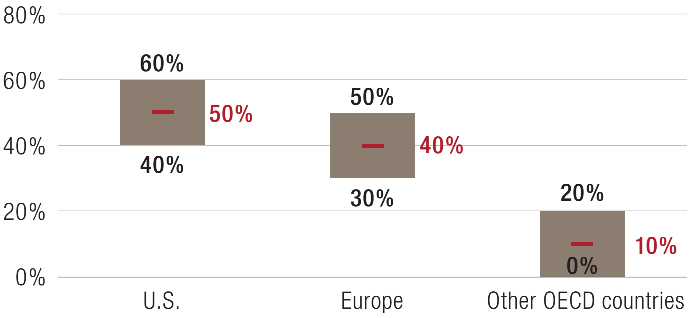
The investment group will benefit from opening portfolios that are already in place. This enables Swiss pension funds to take a stake in existing portfolios with immediate exposure, reducing the J-curve effect.

Diversification will be sought through exposure, in the long term, to 15 to 20 private equity funds and around twenty co-investments, or more than 120 underlying companies. The underlying companies will offer diversified sectoral exposure for all stages of company development (venture capital, growth capital, buyouts, special situations), with a dominant weighting on growth capital and buyouts. Additionally, diversification at the valuation level is ensured by investing in underlying companies of various vintages. Geographical allocation will also be balanced, as Figure 3 shows.

Outstanding historical returns

Created in 2007, Lombard Odier's Private Equity team comprises 15 investment professionals dedicated to the universe of unlisted assets, drawing on cumulative experience of over 175 years. The team has been able to forge close relationships with leading fund managers who are difficult to access.

FIGURE 3: TARGET GEOGRAPHICAL ALLOCATIONS OF LOMBARD ODIER PRIVATE EQUITY OPPORTUNITIES



Note : allocations cibles sur la base de l'engagement, une fois que le groupe de placement est entièrement engagé ; indications fournies sans garantie, les allocations et/ou la composition du portefeuille sont susceptibles d'évoluer. Source : Lombard Odier.

In addition, they have the support of further resources from various functions in Lombard Odier, such as Compliance, Legal and Risk. The infrastructure in place enables Lombard Odier to manage and monitor more than 120 unlisted investments (primary, secondary, co-investments).

For the past decade, Lombard Odier has shown its ability to execute complex secondary market transactions, to tight deadlines, at world-renowned institutions. The performance of the two secondary-market programmes launched in 2009 and 2015 shows the attractiveness of positioning in small-scale transactions (cf. Figure 4).

FIGURE 4: HISTORICAL PERFORMANCE OF LOMBARD ODIER'S PRIVATE EQUITY SECONDARY PROGRAMME

	Fund amount[1]	Year	Discount to NAV[2]	Multiple[3]	IRR[4]
LOSP I	USD 45 million	2009	29%	1.81x	21.9%
LOSF II	USD 118 million	2015	15%	1.44x	23.5%

[1] LOSP I stands for LO Secondary Program I, a secondary transactions offer launched in 2009.

[2] Average discount to NAV (portfolio level).

[3] Multiple on invested capital (MOIC), net of underlying funds' fees and Lombard Odier feeder fees.

[4] Internal Rate of Return, net of underlying funds' fees and Lombard Odier feeder fees.

Note: Data as at 31 March 2019. Past performance is not a guarantee of future results.
Source: Lombard Odier.

Opportunities

- Easy access to two specific private equity strategies (secondary and co-investment) that usually require commitments significantly above the minimum amount of CHF 1 million.
- Attractive target annualised return of 15% (IRR), based on a performance dating back over 12 years.
- Swiss investment foundation structure exclusively for pension funds, ensuring optimal governance and alignment of interests.
- Investment in three funds, two of which are at the active investment stage, helping generate immediate exposure and therefore a significant flattening of the J curve, while increasing visibility (lower risk of a "blank cheque").
- Particularly attractive risk-return profile, benefiting from the fund diversification but also lower management fees for co investments

Risks

- The value of investments may fall. Investors may receive less than their initial investment or incur major losses.
- As this is a closed investment group, it is exclusively for long-term investors able to commit over the life of the foundation. Sale of shares during the life of the investment group is not possible in theory and could generate major losses.
- The investment group invests in unlisted funds and companies that are not traded on public markets. Estimating share valuations may be difficult and based on estimations or benchmark data that may be highly subjective.
- As the underlying currency exposure is not hedged, significant fluctuations may impact the value of shares.
- The investment group may partly invest in emerging markets, which have a higher risk profile than developed markets.
- In general, the investment group's investments are exposed to political and economic risks that could significantly affect their valuation.

KEY CHARACTERISTICS

Name	Lombard Odier Private Equity Opportunities		
Supervisory authority	Swiss Occupational Pension Supervisory Commission (OPSC)		
Manager	Lombard Odier Asset Management (Switzerland) SA		
Directorate	Avadis Prévoyance SA		
Custodian bank	Banque Lombard Odier & Cie SA Geneva		
Valuation	Quarterly		
Life period	10 years from the last closing date (with 2 possible extensions of 1 year each)		
Minimum investment subscription	CHF 1 million		
Fund currency	CHF		
Fund type	Closed fund		
Investment period[1]	2 years from the last closing date (with 2 possible extensions of 6 months each)		
Compensatory interest	2% p.a. on committed capital (pro rata temporis)		
Classes	A (<10 million)	B (≥10 million)	
Management fees (base: capital commitment)[2]	1.1% p.a., phased reduction of 0.10% p.a. at the end of the investment period of underlying funds	0.9% p.a., phased reduction of 0.10% p.a. at the end of the investment period of underlying funds	These management fees are calculated transparently (no double invoicing)
Performance fees	12.5% if a preferential return of 8% p.a. is achieved (hurdle)		These performance fees are calculated at the level of the investment portfolio's consolidated net returns.
Closing dates	Initial closing date: 30 June 2020 Intermediate closing dates: 30 September 2020/15 December 2020/31 March 2021 Final closing date: 30 June 2021		
Reporting/Audit	Quarterly/Annual audit by PwC		

[1] Applies to the product. The investor will be subject to calls for funds throughout the lifetime of the investment group.
[2] Excludes administrative, custodian, structural and other internal costs; fees linked to the Luxembourg feeders are also charged at cost price (around 0.20% p.a.).

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FOR SWISS PENSION FUNDS ONLY

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