



SwanCap

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SwanCap Partners

Erfolgsfaktoren für nachhaltig erfolgreiche Co-Investment Strategien

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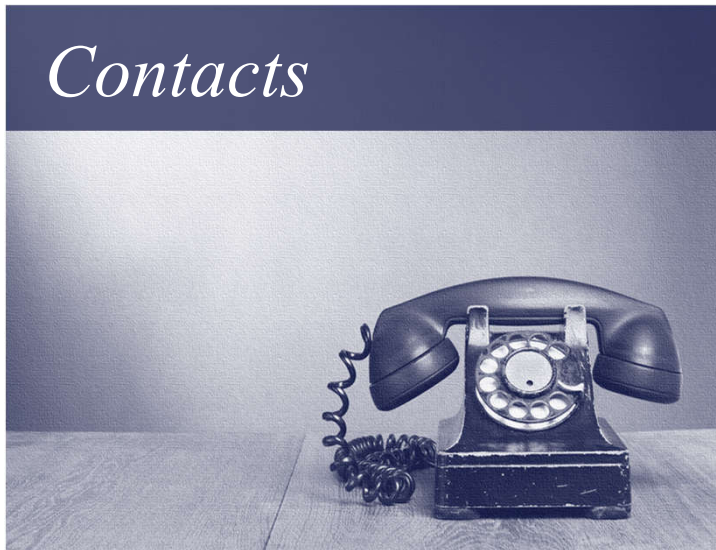
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SWANCAP PLATFORM



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SwanCap Overview: Independent Private Equity Investment Boutique with two decades of experience

SWANCAP PLATFORM

Selective investment approach
with focus on
capital preservation

Private Equity specialist
with top-quartile performance

Primary Fund investments
+ Co-investments
+ Secondary transactions

25+ Private Equity Professionals

New York, USA

Luxembourg
AIFM

Milan, IT

Munich, DE

4 offices in Europe and North America

Long-term institutional
investor base

20-year experience
in Europe and North America¹

Preferred access to
attractive investment
opportunities

SwanCap's Co-investment Track Record: Co-investments as a key element of our investment strategy

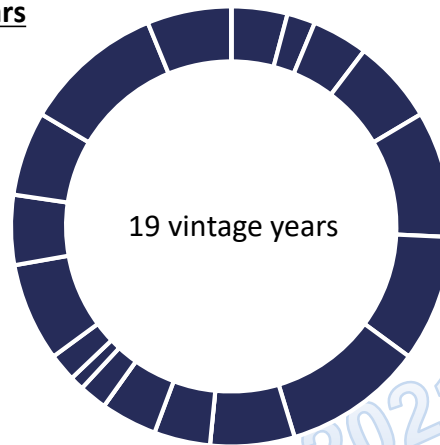
SWANCAP PLATFORM

Co-investments
95+

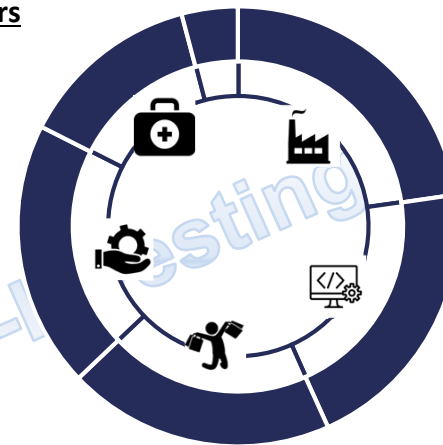
GP-partner
50

Commitments, in € bn
1.2+

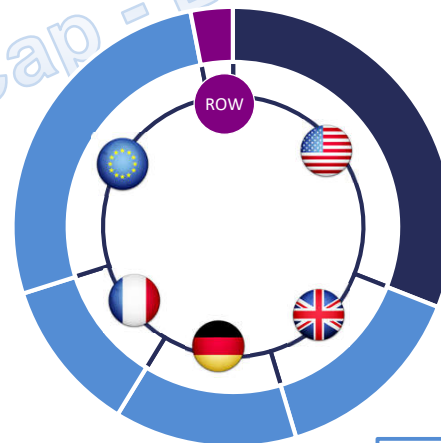
Vintage years



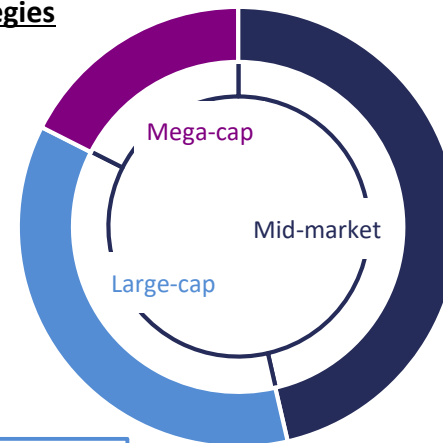
Sectors



Regions



Strategies

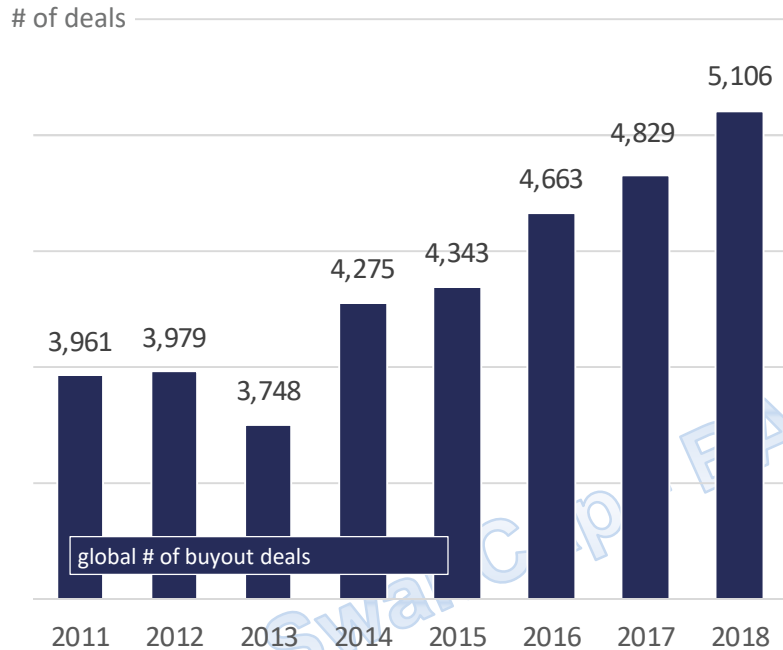


Portfolio valuation net:
1.9x TVPI/20%

Co-investment opportunity set: Growing number co-investment opportunities based on healthy buyout markets and increasing LP “appetite”

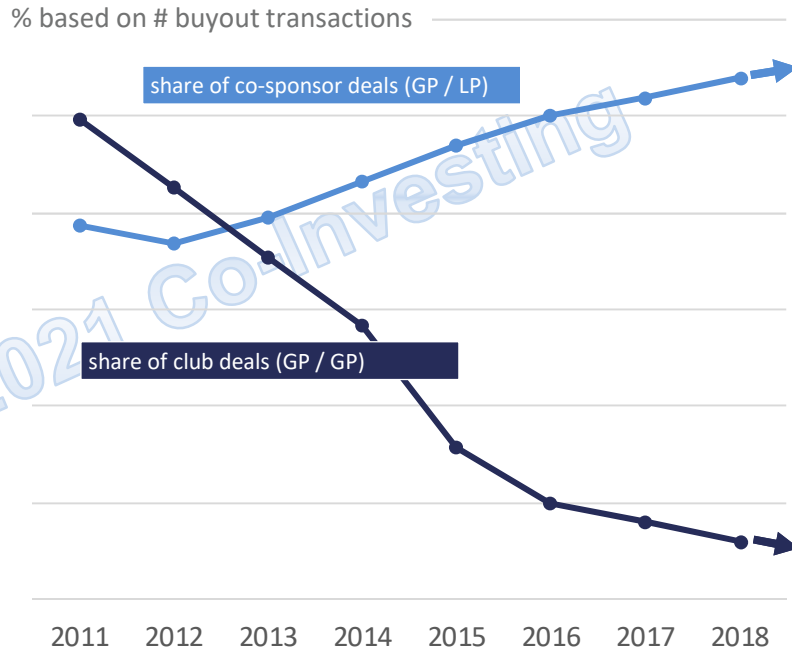
Co-Investment Volume

Global buyout activity



- Significant historic growth supported by gradual increasing dry powder / fundraising
- Current level of dry powder indicates ongoing growth

Share of club deals and co-sponsor deals



- Desire by GPs to avoid club deals with competitors
- GPs avoid over-concentration in single deals
- Professional LP co-investors replace other GPs as partner

Co-investment market (cont'd): Promising outlook of future co-investment flow given perceived advantages by lead GPs

Co-Investment Volume

GP benefits for co-investment partnerships

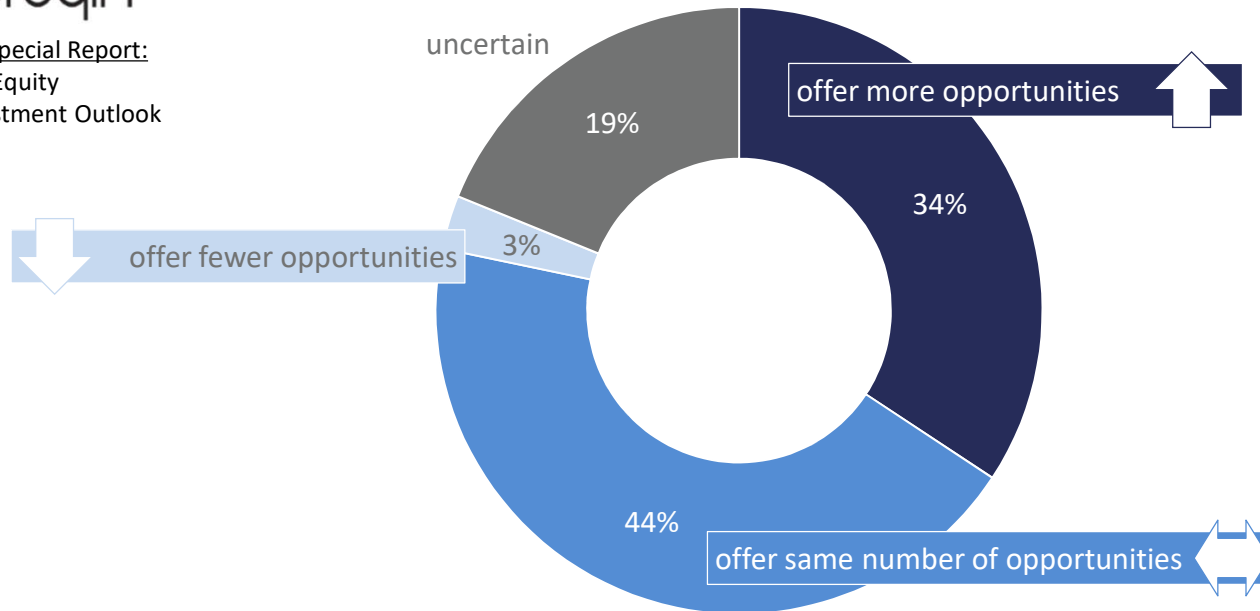
- **Relationship building**: GP enhances relationships
- Fire power: **Increase in equity tickets**
- Active **portfolio management** to avoid over-concentration
- Insights: Additional **deal or transaction insights**

GP requirements for co-investment partnerships

- **Flexible capital** in terms of ticket size and structures
- Reliable **source for follow-ons / buy-and-build strategies**
- **Speed of execution** and **predictable, transparent process**
- Like-minded investor **well known** for many years

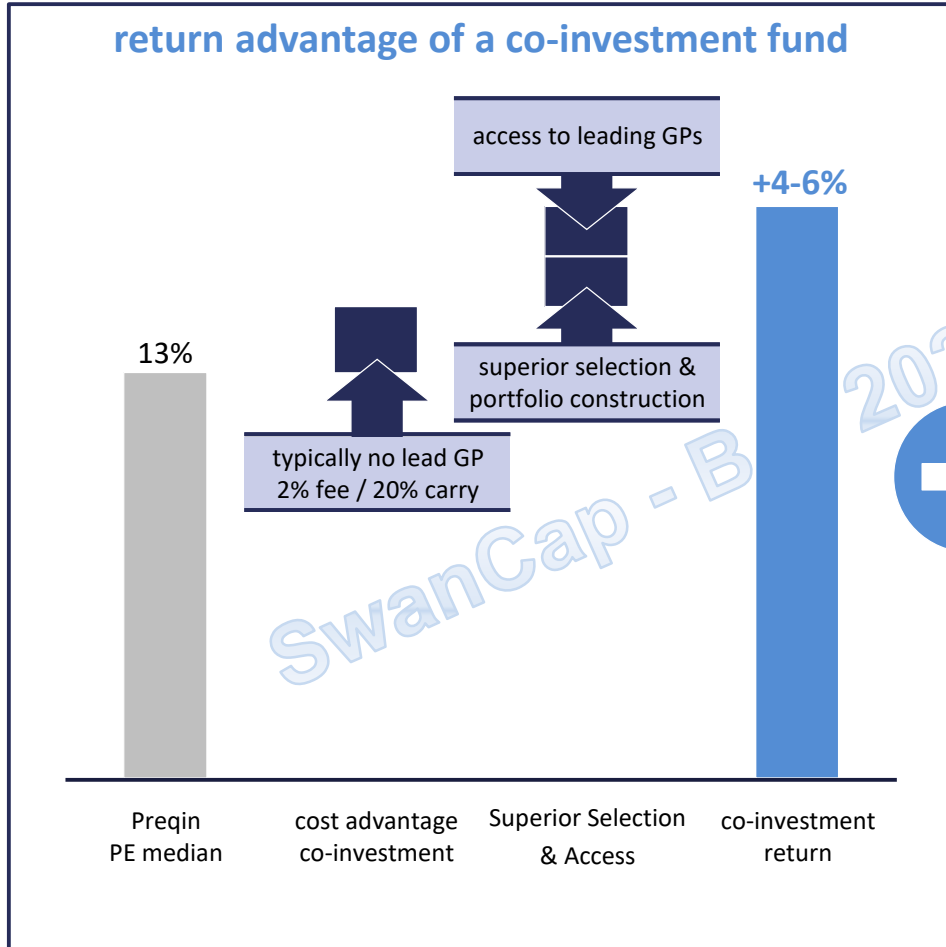


Preqin Special Report:
Private Equity
Co-Investment Outlook



SwanCap Co-Investment Strategy/Program – Key Attractions: Strong returns, balanced diversification and fast capital deployment

Advantages of investing via a co-investment fund



Active, balanced diversification

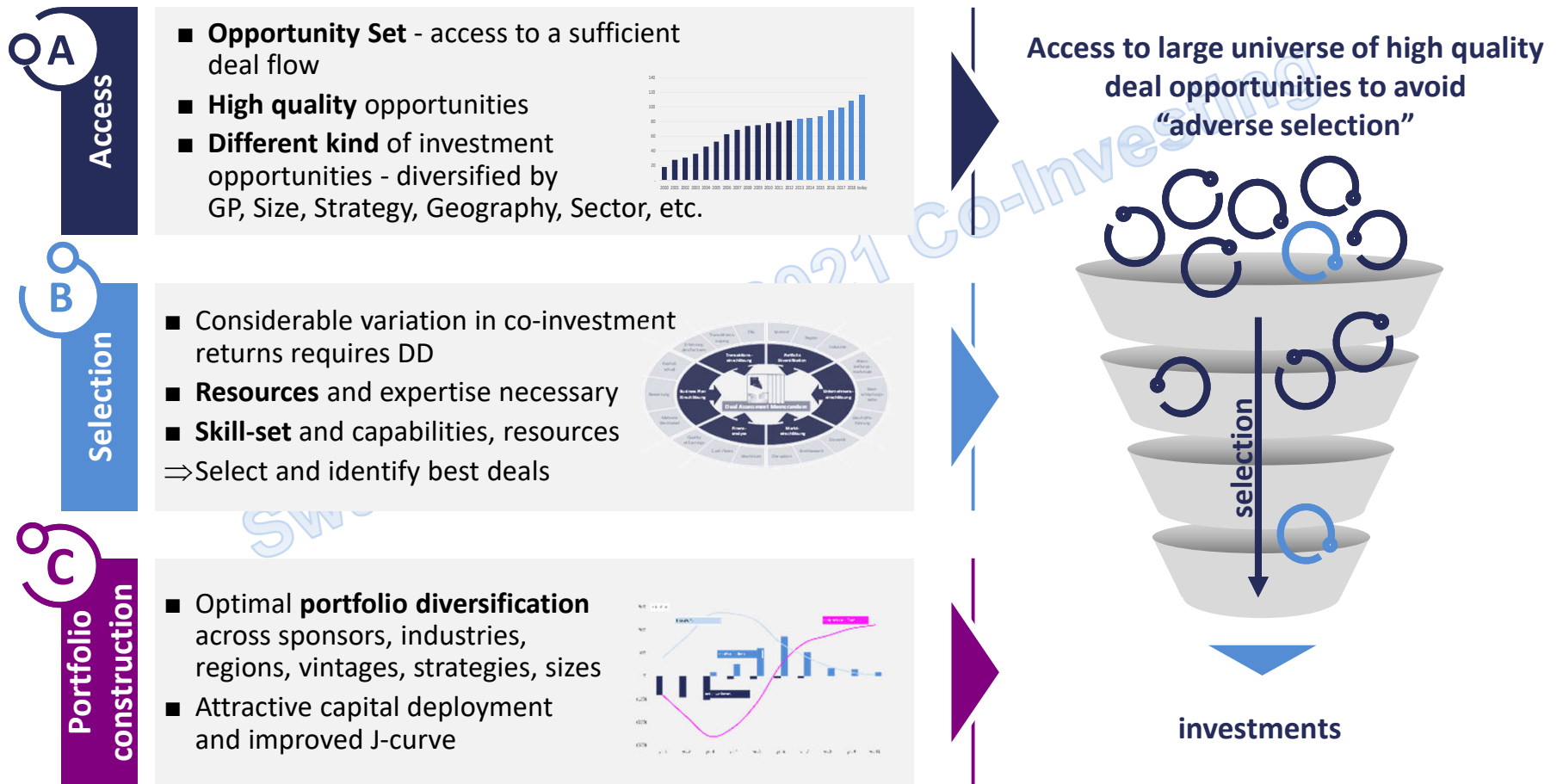
- GP
- region
- sector
- size
- vintage

Improved cash flow profile & deployment

- Fast deployment
- Fast repayment
- Better J-curve

Ingredients for SwanCap's successful co-investment program: Access, selection and portfolio construction as prerequisites for a value-enhancing co-investment program

Key success factors



Selection: No adverse selection for co-investments offered to LPs

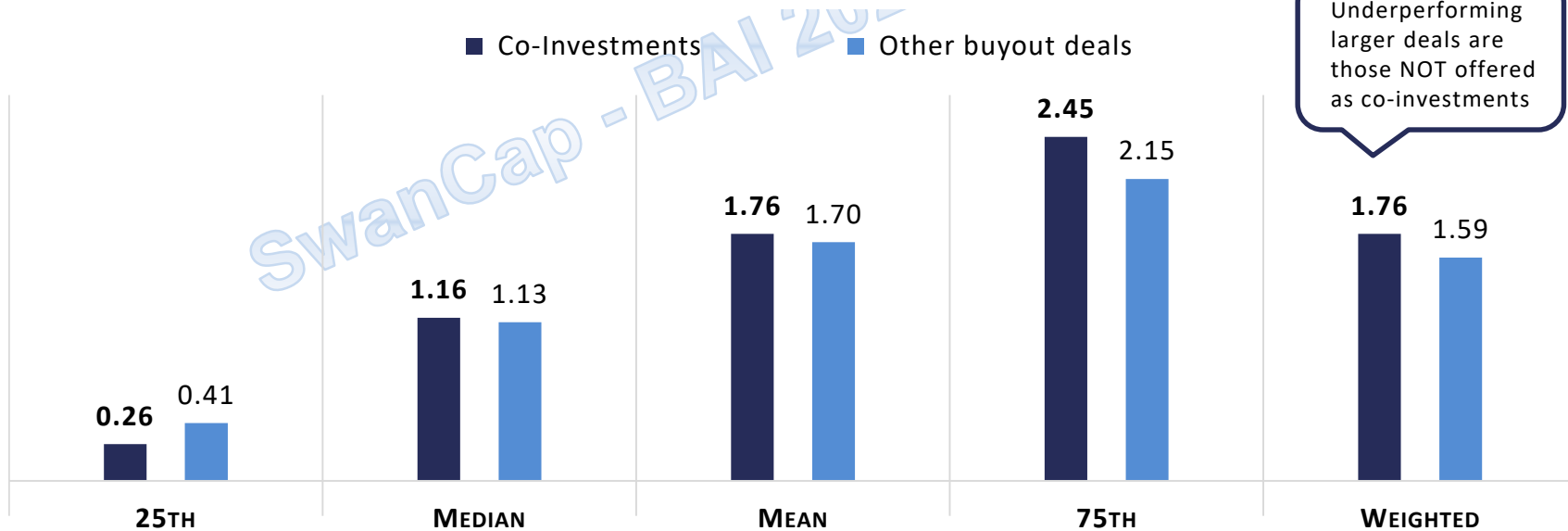
■ Research by Munich TU / Oxford on Co-Investments

- **No adverse selection:** overall returns slightly above vs. buyout deals not offered to LPs
- **Performance and distribution of gross returns similar also within a given fund**
- **Net LP returns much higher due to no / lower fees**

■ SwanCap's experience

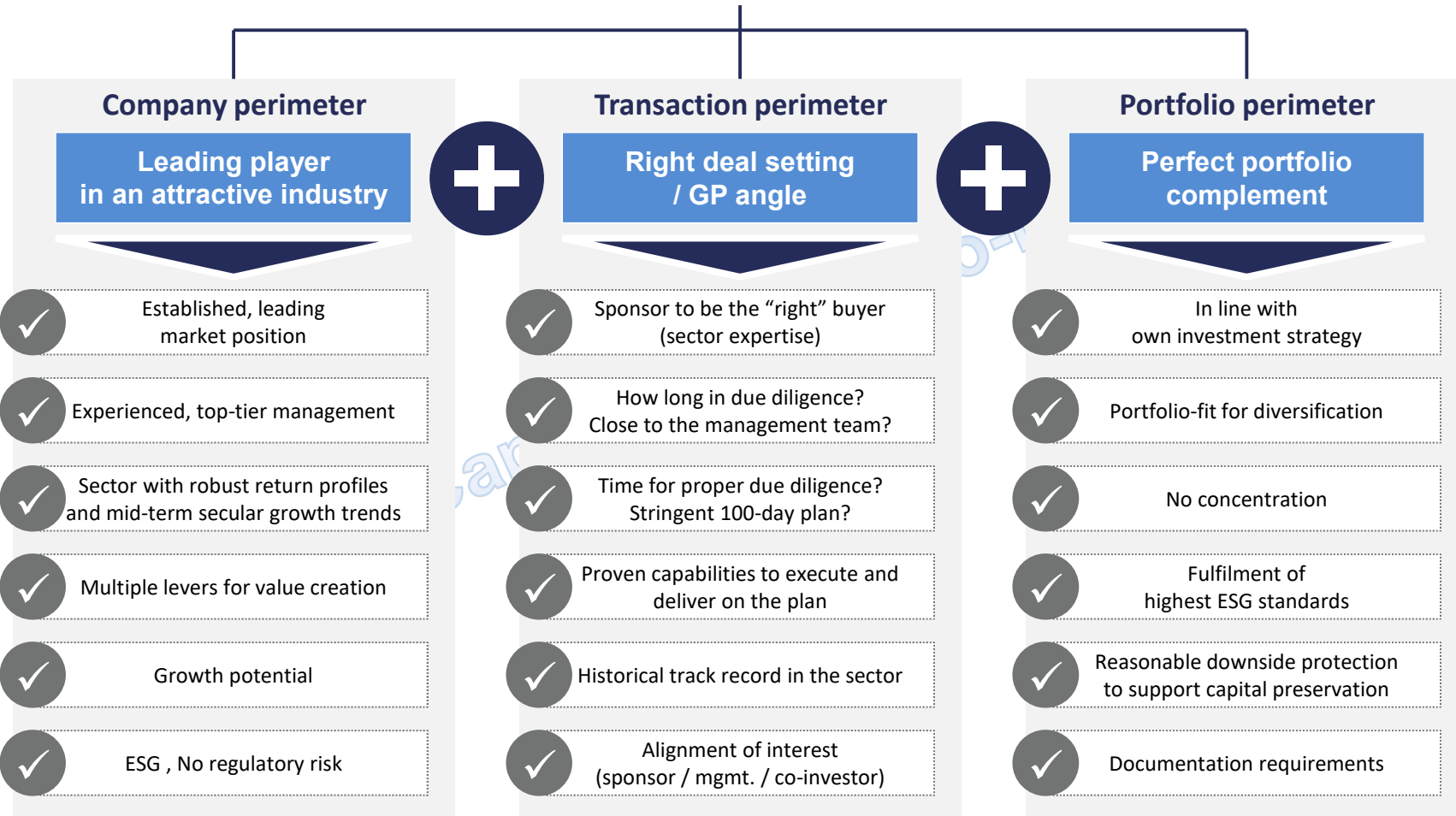
- **Lead GP usually commits its highest possible/optimal amount** to the deal -> hence is convinced
- **Lead GP do not risk relationship / future fundraising** by showing less attractive deals to LPs
- **Low quality Co-I offered by weak GPs as fundraising inducement can be recognised**

Gross KS PME – Co-invest vs. other buyout deals



Highly Selective Investment Approach: Deal Selection Criteria – 3 important perimeters for own and independent due diligence

Due Diligence Perspectives



Selective investment approach (cont'd): What to avoid during co-investment processes

Invest under time pressure

No time or opportunity to conduct our own, independent due diligence in an adequate manner

“Wrong” sponsor for the “right” company

e.g missing sector expertise, no sponsor USP, broad auction without management access

Limited “insights” / Asymmetric information

Limited insights into the rationale of a transaction and missing understanding of the business model

Misalignment of interest between sponsor and co-investor

Company valuation not supported by business fundamentals

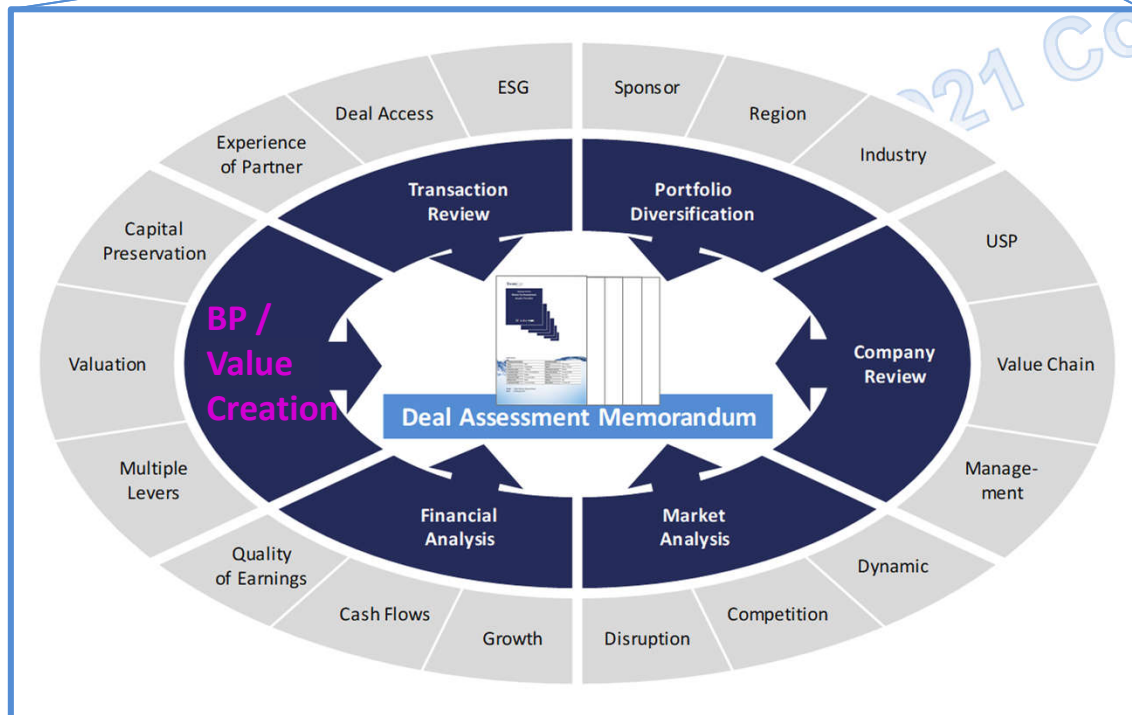
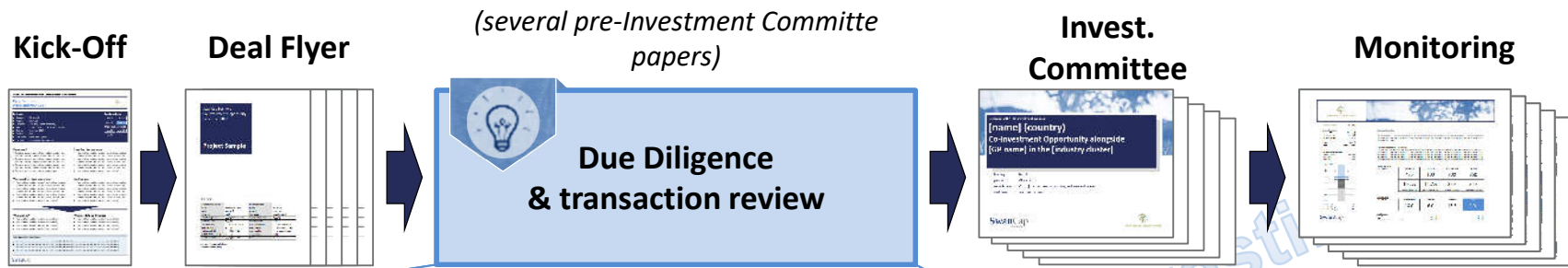
Avoid maxed-out company valuations as a result of broad auctions and heavy competition

“Passively follow the GP”

Avoid too strong dependence and reliance on sponsor investment case which might focus on different priorities

Case Study: Due Diligence components during selection process

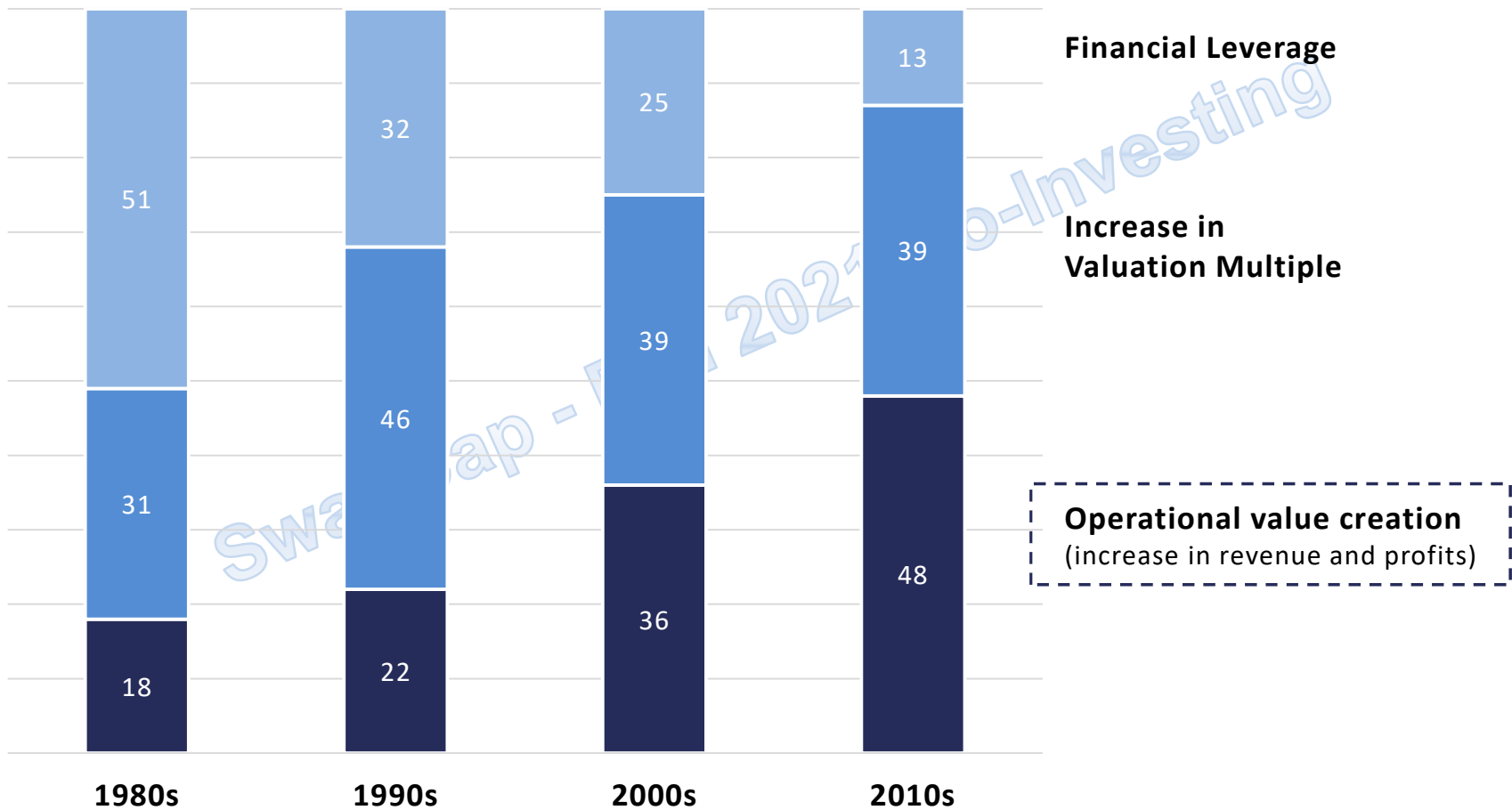
Co-Investment Strategy



- Independent Modeling
- Independent analysis
- Own 3rd party due diligence
- Own expert interviews
- Management Calls
- Benchmarkings

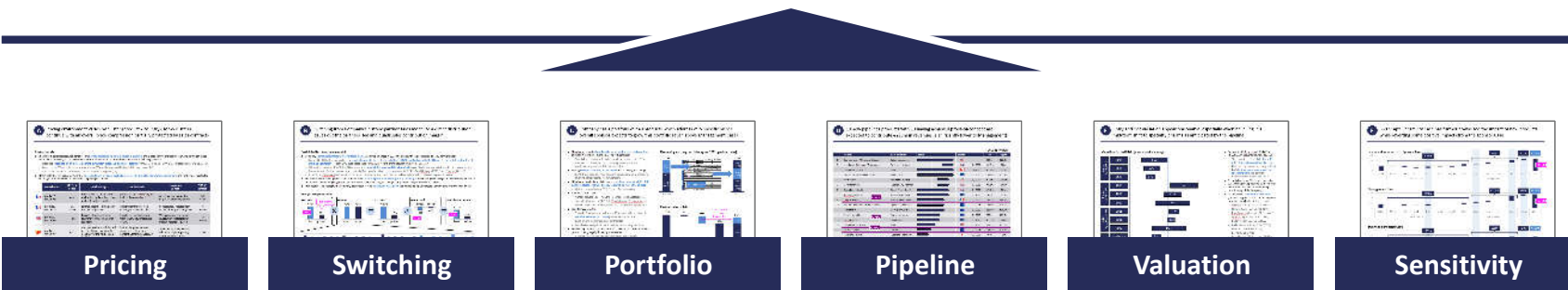
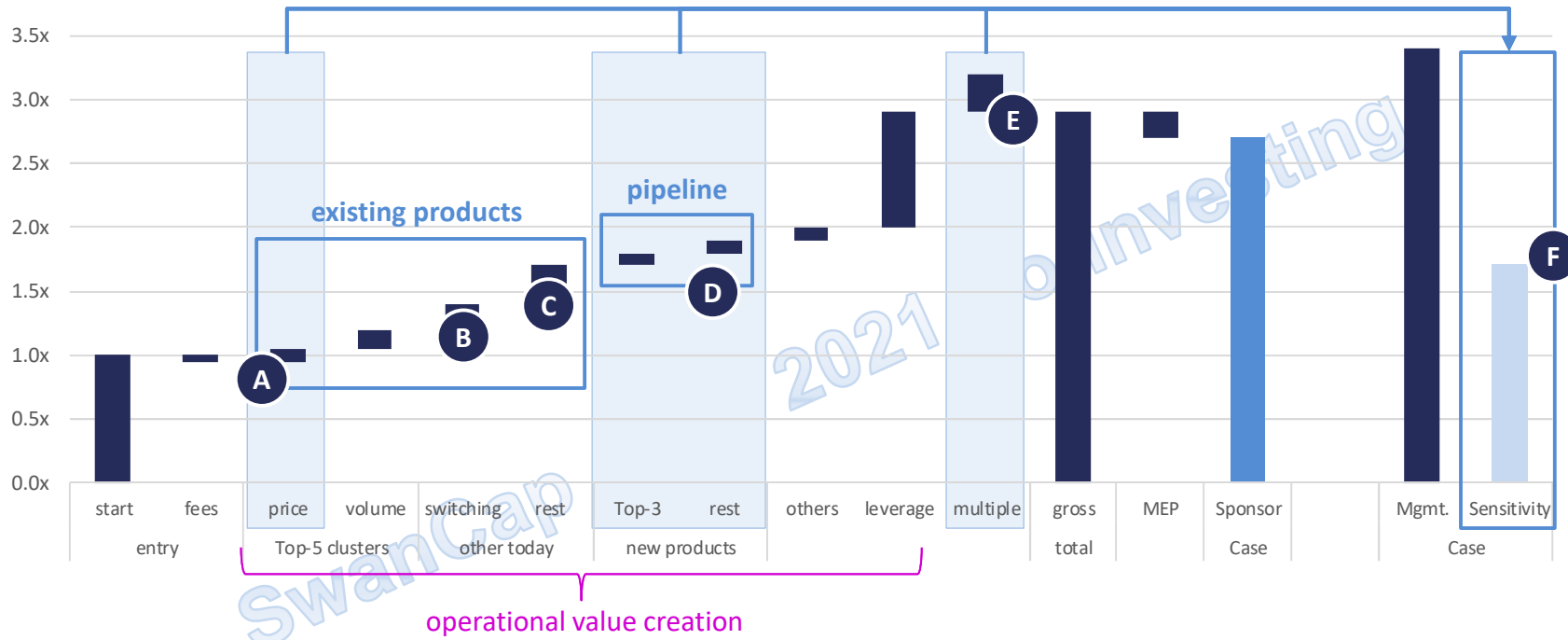
Case Study: Focus on equity value creation – BCG found operational value creation is increasingly the biggest driver for PE returns

Contribution to PE returns (%)



Case Study: Focus on equity value creation (cont`d) - Understanding the envisaged value build-up of the investment case

Sample equity value creation bridge



Portfolio Construction: **Balanced diversification across a variety of dimensions is key** – right-sizing the portfolio

■ What size should a risk-return maximising Co-Investment portfolio be?

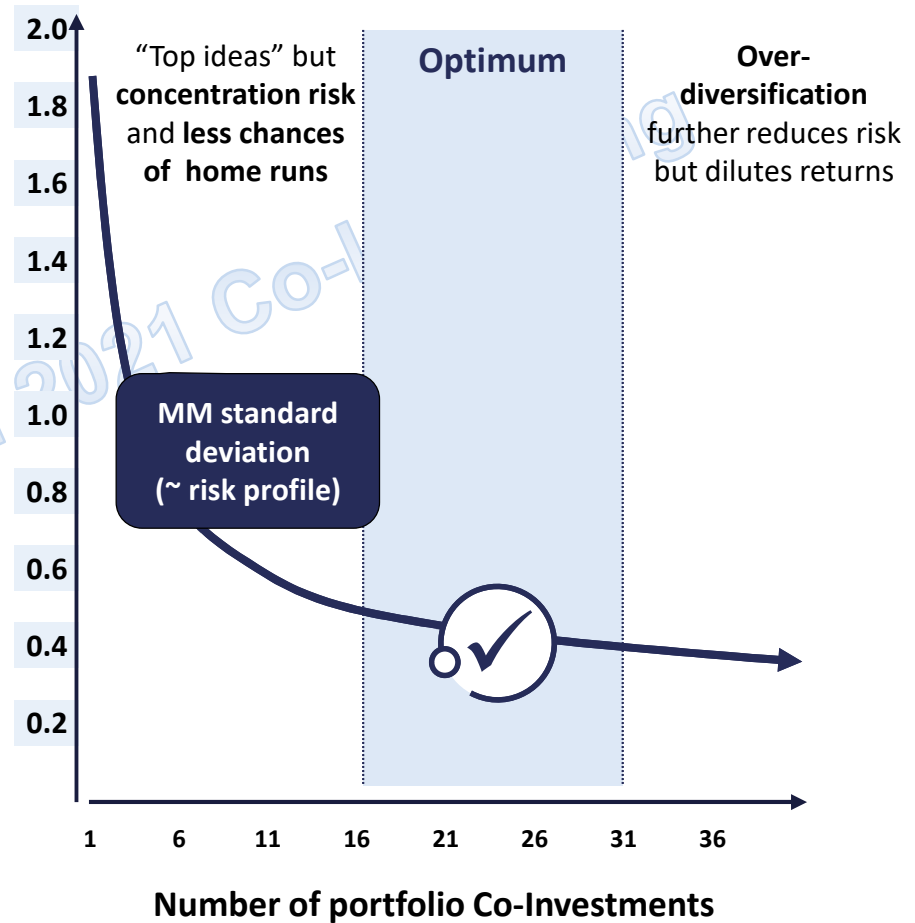
- The “skill argument” -> concentration
 - “Top ideas” generate higher returns
 - Over-diversification dilutes returns



- The stats argument -> larger # of deals
 - Diversify to reduce risk
 - Maximises chance of “home runs”

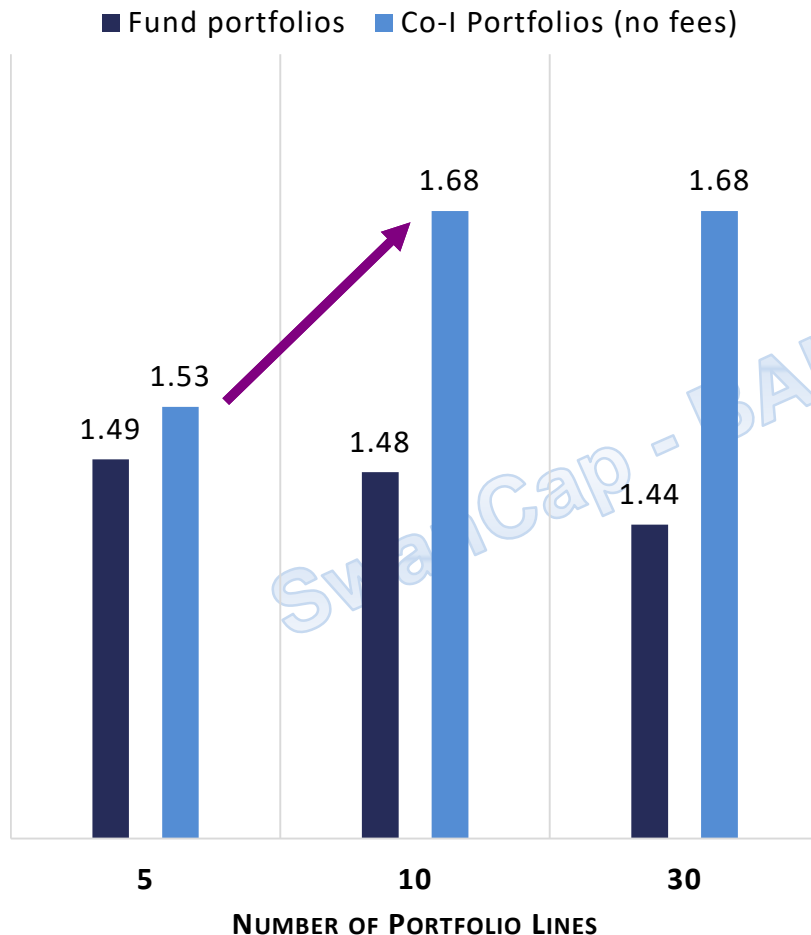


Portfolio diversification effect (illustrative)



Portfolio Construction: Empirical studies suggest a Co-Investment portfolio should at least have 10 deals to improve expected outperformance

Net median KS PME by buyout portfolio size
(University of Chicago)



Co-investment Alpha strategy

✓ **PORTFOLIO: right size & composition**

- 20-25 deals for reduced return volatility
- Maximise chances of hitting “home runs”

✓ **SELECTION: strong sourcing + flexibility**

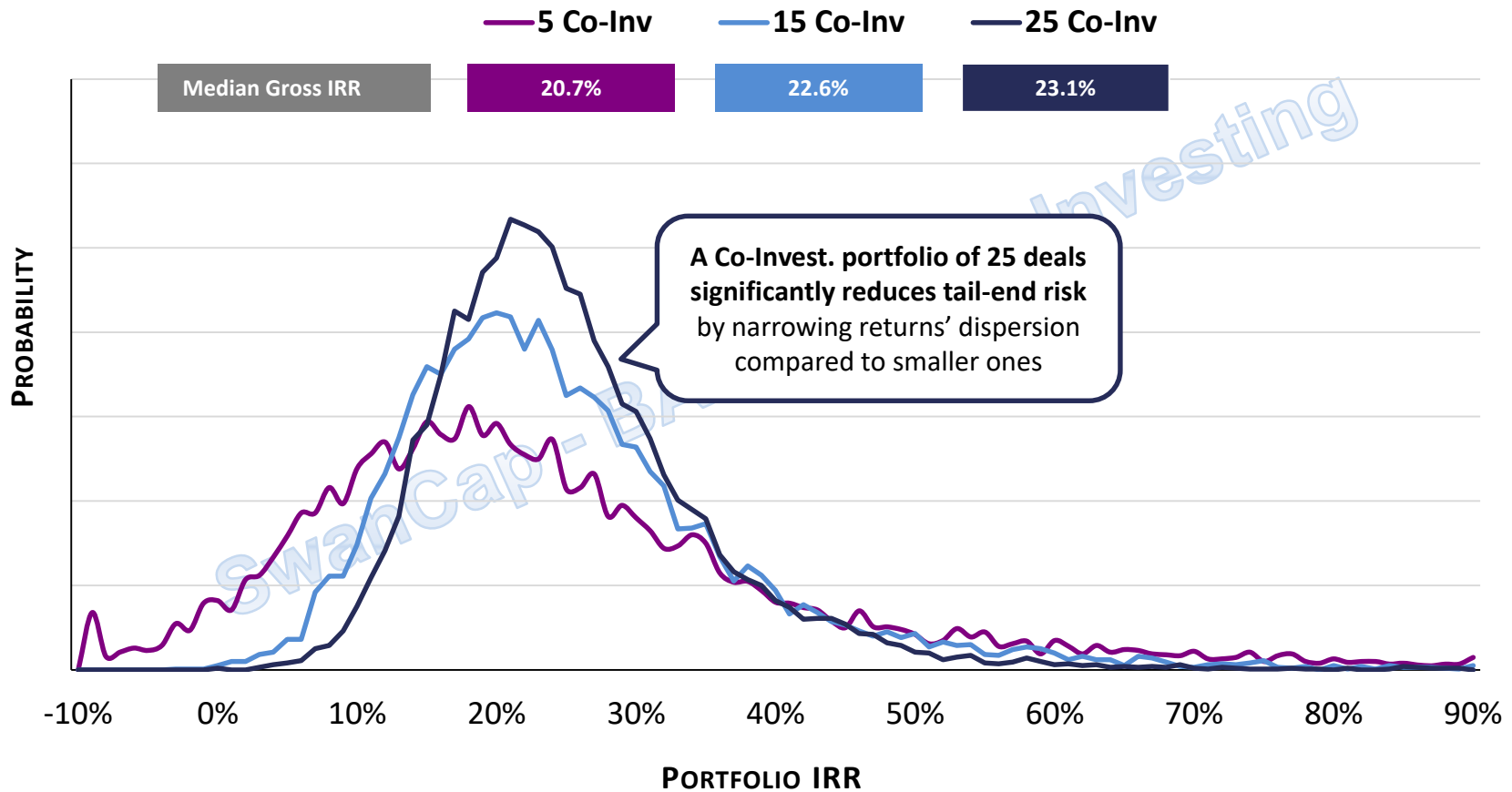
- High selectivity from quality deal funnel
- Co-investment fund size not restricting investment options re: equity tickets

✓ **COSTS: strive for no fee - no carry deals**

- 4% to 5% IRR net return advantage for a strong-performing portfolio

Portfolio Construction: Simulations show that reasonably sized Co-Investment portfolios significantly reduce tail-end risk while slightly adding to median IRRs

Co-investment Portfolio IRRs distribution – Monte Carlo simulation



Final considerations – looking for Alpha via Co-Investments: **Implications for a successful co-investment strategy, especially in the current market environment**

Summary

1 Access to a broad spectrum of opportunities & the resources and capabilities to conduct own, independent due diligence

- Uncertainty is high, valuations are high
- Stay disciplined and highly selective

2 High Quality Assets & Selectivity

- Relentless focus on quality – invest in and alongside the best-in-class Managers
- Leading management teams and businesses with sustainable competitive advantage
- Understand structural vs. temporary changes (customer behaviour, technology, etc.)

3 Portfolio Construction and Diversification is key

- Key to diversify in terms of Geographies, Sectors, Strategies and Vintage Years
- Avoid concentration risk to sponsor, sector, geography, etc.

4 Focus on Operational Value Creation & Growth

- Operational Value Creation capabilities key to generate outperformance
- Ability to cope with “change” and react fast of utmost importance
- Change in 3 ways: operational, scale, disruption

5 Capital Preservation

- Focus on attractive risk-return profiles
- Look out for adequate downside protection (structural, preferred, etc.)

SwanCap

Private Equity | Local Insights | Customized Solutions
