



OVERBAY

# 4 Reasons We Love Fund of Funds

## Mature, cash-flowing assets offer great value

In the early 2000s, fund of funds (FoFs) were a popular way for institutions to invest in the private equity (PE) asset class. For teams that did not have the access, capital, or expertise to build their own portfolios, FoFs offered a simple way to build a PE program.

At one point, FoFs represented roughly 15% of all private equity capital raised annually. Over time, however, the appeal of FoF investing began to wane in response to several wide-scale changes and events.

Investors came to realize that FoFs have very long lives compared to direct funds, taking much longer to deploy and longer to return capital. The global financial crisis and the associated slowdown in PE exit activity elongated the lives of FoFs even further.

And perhaps related to the financial crisis, returns from FoFs overall failed to deliver on investor expectations. At the same time, the PE industry as a whole matured and institutions began to build in-house PE capabilities, reducing the need for FoF products.



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Today, primary FoFs represent approximately 5-8% of capital raised each year. While FoFs may not suit the tastes of today's investors to the same degree, we love FoFs. For Overbay's strategy and for our investors, FoFs have four attractive features in particular:

- 1 Efficiency** - Mature FoFs acquired on a secondary basis offer a highly efficient way to gain exposure to diversified, high-quality private equity in a single transaction.
- 2 Lower Risk** - While FoFs may not offer the returns that direct fund and co-investing offer, they have a very attractive risk profile.
- 3 Access** - In the undemocratic, highly competitive world of private equity investing, FoFs offer a unique (and sometimes the only) way to access the best general partners' funds.
- 4 Global Insight** - Private equity is a vast asset class with over 9,000 institutional managers around the globe. FoFs employ large teams and rigorous methods to survey their respective markets and select the best managers and funds. Buying FoFs allows us to leverage this expertise and insight.

If you're thinking of selling, we are an experienced buyer of FoFs. We are investors in over 100 FoFs and maintain up-to-date pricing on hundreds of others. We are an approved buyer of FoFs, provide quick and transparent feedback, and can execute quickly and smoothly.

## Should You Hold or Sell Old FoFs?

Email us for our report on this topic. In this report, we explore the expected returns and time horizons of different vintage FoFs. Potential sellers of legacy FoFs may wish to compare the return they would give up by selling to the return that they would expect to make in other investments. Depending on the seller's investment opportunity set, significant value can be created through selling and redeploying.

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