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Ardian, Blackstone and Apollo Are Top Buyers of $5 Billion Private-Equity Portfolio

The Kaiser Permanente pension fund asset sale ranks as one of the largest ever on the secondary market

Kaiser Permanente's pension plan is selling about $5 billion of older assets to buyers that include Ardian, Blackstone and Apollo Global Management.

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By Rod James

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A group of blue-chip buyers is set to acquire one of the largest portfolios to trade on the market for secondhand fund stakes.

Healthcare provider Kaiser Permanente in Oakland, Calif., is selling about $5 billion of private fund positions to a group that includes buyout firms Ardian, Blackstone Inc. and Apollo Global

Management Inc., according to several people familiar with the matter. The assets are held by the company's pension plan.

Secondary sales occur for a variety of reasons, including portfolio rebalancing or as part of a change in investment strategy, often brought about by new management. In this case, Kaiser's pension plan seeks to raise cash for new fund commitments by selling older investments, two of the people said.

Paris-based Ardian accounts for the largest chunk of the Kaiser sale, with assets priced at an average discount of 10% to 15% below their book value, according to two of the people. A fourth buyer, whose identity couldn't be determined, accounted for a small piece, those people said.

The assets include interests in private credit and venture capital funds as well as buyout funds, according to one person who looked at the deal.

Kaiser didn't respond to a request for comment.

Earlier this week, Kaiser said it was acquiring a Pennsylvania-based hospital operator in a bid to create a new national player. The transaction between the two nonprofits isn't structured as a traditional purchase, but Kaiser is expected to provide about $5 billion in funding to the newly created operating unit, the healthcare providers said.

Kaiser hired investment bank PJT Partners earlier this year to help it shop assets valued at $6 billion. The $5 billion that the insurer and healthcare company ended up selling found buyers through what is known as a mosaic process, where prospective acquirers select assets they find attractive and negotiate prices and terms on those selections, people familiar with the matter said.

Such deals tend to drive up the sale value for the seller compared with setting one price for the whole portfolio because buyers can pass on assets they find less attractive.

Institutional investors had offered as much as $18 billion of private-equity fund stakes for sale this year as of early March, The Wall Street Journal reported at the time.

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Some recent secondary sales have been prompted by the denominator effect, when declines in publicly traded stocks magnify the portion of private assets held by an investor, leading to attempts to rebalance holdings through sales of less-liquid assets, including fund stakes.

Sales also have taken place to provide institutional investors with cash to invest in new funds. Some of those investors might be seeking higher returns, while others simply want to stay on pace with one of their best-performing asset classes.

Private-equity investments during a downturn have tended to perform better compared with boom-time commitments, as companies have generally proved cheaper to acquire when markets slump, said one person who looked at the Kaiser portfolio.

There is also a penalty in failing to maintain a consistent investment pace, in terms of missing out on good investment opportunities or losing access to the best fund managers.

“The opportunity cost of not investing is quite high. If you stay out of the market for 18 months, it is difficult to catch up,” the person said.

The largest-ever secondary deals include a $6 billion sale by the California Public Employees’ Retirement System to Lexington Partners and Glendower Capital last year. In 2019, Japanese financial-services cooperative Norinchukin Bank sold a $5 billion collection of assets to Ardian.

Attempts to close secondary deals last year often got hung up on gaps in pricing expectations held by buyers and sellers. Secondary market deals dropped 18% last year to around $108 billion compared with $132 billion in 2021.

In an April presentation seen by The Wall Street Journal, PJT Partners estimated that prices for “quality, diversified buyout portfolios” have risen by 2 percentage points to 4 percentage points over the first quarter of this year, bringing hope that more institutions with assets to sell will be encouraged to enter the market. The investment bank noted that the improving macroeconomic picture and an increase in investible cash drove the price gains.

Ardian had collected around $10 billion for its latest main secondaries fund as of last July against a $15 billion target. In January, Blackstone's Strategic Partners secondaries unit said it had raised $25 billion for its ninth main fund, making it the largest vehicle yet raised for the strategy.

Apollo is newer to the market, having laid out its desire to pursue secondary deals in 2021. Last August, Apollo said it had set up a sponsor and secondary solutions business called S3, which received a $4 billion anchor investment from sovereign-wealth fund Abu Dhabi Investment Authority.

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