

# Finding Value in the Direct Secondary Market, Sustainably

**Direct secondaries manager Mercato Partners explains how leveraging relationships helps to source deals in companies making an impact**

Alternatives managers are rapidly warming to the idea that investing in innovation and growth can work with sustainability and a social conscience. Key to this realization is the growing evidence that performance does not have to be sacrificed. The COVID-19 pandemic has created a boon for the secondaries market in 2020 as liquidity needs rose dramatically, perhaps diluting the market, but one manager is sticking to its process.

Prequin spoke with Saima Ahmed of Mercato Partners Alpha Fund, about her experiences running a secondaries fund with a sustainable focus, and the investment value that Mercato sees in the non-financial goals of its portfolio.

## **What investment characteristics do you target?**

We seek investments that deliver market returns. While we are industry agnostic, we target high-growth companies on a path to profitability with a clear line of sight to a realization event. Equally as important is that these companies strive to make a positive impact by promoting themes such as resiliency, sustainability, and equity. How they achieve this impact can vary depending on the solution or service they provide and how they operate their business. We focus on companies across North America, targeting geographies with vibrant business activity that are often overlooked relative to the more established hubs.

## **These days, how valid is the assumption that investors should expect a trade-off between values and performance?**

The historically held view is that focusing on values comes at the expense of returns. We believe this is inaccurate, which is being demonstrated by a marked shift in the investment community's attitudes toward responsible or sustainable investing. With the appropriate level of commitment and intentionality, today it is entirely achievable to deliver financial performance while achieving non-financial outcomes. A longer-term trend we expect to see in the coming decades is a shift in capital flows that leads to market repricing such that it applies a premium to these investments.

**Mercato Partners** is an alternative investment firm, established in 2007, investing across a variety of strategies focused on companies in underserved and overlooked vibrant business hubs in North America. The Firm provides both capital and guidance to founders and companies in a range of stages and across several industries including technology, healthcare, fintech, food & beverage, and branded consumer.

**Saima Ahmed** is an alternatives investments professional with ~18 years of experience across the public and private sectors. Over the course of her career she has been responsible for raising and deploying \$1bn+ of capital across a variety of sustainable strategies. She has worked at firms including BlackRock and Morgan Stanley and also spent several years in the public sector at the US Export Import Bank.



**Saima Ahmed**  
Principal

**Mercato Partners**  
[alpha.mercatopartners.com](http://alpha.mercatopartners.com)

## **Data shows that secondaries tend to outperform primaries in stressed markets, but will this heightened demand push valuations higher and lower expected returns?**

Strong demand for traditional secondaries is already impacting pricing and driving the need for further innovation in transaction sourcing and structuring. We don't expect this trend to impact the direct secondary market to the same extent for a few reasons, which all speak to the greater barriers to entry in this market segment. Firstly, sourcing these transactions is heavily dependent on leveraging an expansive relationship network. Secondly, most of these opportunities are driven by sellers seeking liquidity for personal reasons, which have only been exacerbated in the current market, and are leading to more deal flow. Finally, it is important to have established trusted relationships with the sellers and the executives of the company where shares are being purchased in order to transact successfully.

## **Where do you see potential opportunities and deal flow?**

We are seeing increased activity in several industries including technology, healthcare, financial services, and food & agriculture. All of these are critical to promoting resiliency and sustainability for individuals, communities, and companies as demonstrated by the unprecedented effects of COVID-19. In terms of geography, the often overlooked smaller markets are being neglected further as investors recalibrate their strategies, leading to strong deal flow at attractive pricing.