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Insight

2

Flat tire Fundraising time on the road lengthens

Oversubscribed KKR 'turning away' LPs **4**

Four-comma club Brookfield hits \$1 trillion **6**

People moves Kahler lands at Riverside **7**

Emerging managers Knox Lane nabs \$1 billion **7**



Worth the wait Patience pays off for Platinum Equity **8**

Back to square one ILPA reboots **10**

Bridging the gap Onex vehicle raises \$1.8 billion **11**

People moves CPP Investments taps Gubbels **11**

Gotham stalls NYC pensions' PE underwhelms **12**

Private credit Alameda to amend process **12**

Trending smaller NYSTRS weighs shift **13**

Expert analysis Too big to exit **14**

EDITOR'S LETTER **15**

Cover story

16

"The challenges facing us as a society are not going away"

Despite a post-covid dip, private equity's appetite for the education sector is strong

Analysis

24

More LP sales ahead LP-led deals accounted for \$40 billion of global secondaries volume in H1

Room to disagree Healthcare valuation gap **26**

Early warning The importance of preventative care **27**

Trudge in the sludge Oil and gas exits stall **28**

Follow the money ILPA seeks LPAC vetoes **30**

Sponsored keynote Jersey Finance's Elliot Refson and Philip Pirecki **32**

Market practices The future of funds regulation **34**

New wings From the Air Force to Agellus Capital **36**

Family offices Allocation research from Deloitte **38**

Off-duty Wafra's Sumana Setty **40**

Insight



Fundraising Longer time on the road in a slow market

On the face of it, private equity fundraising in the second quarter of 2024 suggests some improvement, with capital inflows spiking upward relative to a year ago, *writes Kirk Falconer*.

Buyout, growth equity, venture capital, secondaries and other private equity funds in North America raised \$158 billion between April and June, according to preliminary *Buyouts* data, up 31 percent from a year earlier. Adding to the good news, inflows were up 64 percent from the first quarter.

When Q1 and Q2 2024 results are combined, a total of \$254 billion came into the market, nearly matching the results of the first half of 2023.

But when you dig deeper into the details, another story begins to emerge. For example, more capital raised in the second quarter owed

mostly to two mega-funds: Silver Lake Partners VII and Vista Equity Partners VIII, both of which closed on \$20 billion.

Closings decline

Even more importantly, while inflows grew between April and June, fund closings declined, as they have for the most part since 2022. The second quarter saw a total of 305 fund closings, down 12 percent year-on-year, while the first half figure dipped 14 percent.

The factors underlying these trends are well known. Many LPs continue to be short on allocation capital, due mainly to weak distributions. GPs, in turn, react to tight supply conditions by keeping their offerings open longer.

Over the past two-plus years, fundraising timelines, measured from an offering's launch until its final close, have lengthened significantly. In 2022, the first year of slower activity, GPs wrapping up

funds had spent an average of 13 months from open to close, up from 10 months on average in 2021.

A year later, when the slowdown was more pronounced, GP time on the road increased to an unprecedented degree, averaging 17 months. That average was sustained in the first half of 2024.

Sharing the pain

Long fundraising timelines, which help to explain the steady drop in fund closings, appear to be impacting private equity firms equally, taking in even large and high-performing managers typically favored in this market.

For example, Silver Lake and Vista Equity Partners both closed their

17

Average number of months GP funds spent on the road in 2023 and H1 of this year



flagship buyout offerings after a long stretch on the fundraising trail, according to *Buyouts* data. Silver Lake reached the finish line with its fund in almost 30 months, while Vista did the same in roughly 25 months.

More evidence of the phenomenon came to light with Platinum Equity, which secured \$12.6 billion for a sixth flagship buyout fund (see p. 8). Platinum Equity Capital Partners VI launched in the final months of 2021, suggesting the firm has probably been on the road with the vehicle for as long as two years. And as it is not known whether Platinum has wrapped up the fund, the amount of time spent could be greater.

For GPs and LPs alike, long timelines play havoc with fundraising and investment cycles. Perhaps the surest sign of an improved environment will be when this particular indicator has reverted to its pre-2022 norm. ■



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Shoshana Vernick, managing partner and co-founder of Avathon Capital, on investing in edtech (see cover story, p. 16)



“Education and training are critical for economic opportunity. The challenges facing us as a society are not going away. Learning losses continue to worsen – the pandemic contributed to that. The labor market is going through significant dislocation”

Iain Ware, Bain Capital Double Impact, quoted in our cover story



The big numbers

Facts and figures from across the private equity universe

\$158bn

Inflows for buyout, growth equity, venture capital, secondaries and other private equity funds in the second quarter, up 31% from Q2 2023

598

Number of fund closings in the first half of this year, down 14% from the first half of last year

\$254bn

Amount raised by buyout, growth equity, venture capital, secondaries and other private equity funds in the first half, nearly matching the results of a year earlier

\$68bn

Amount Brookfield raised between April and June, bringing inflows over the last 12 months to \$140 billion, Brookfield’s highest ever in a 12-month period

\$12.6bn

Platinum Equity raised that amount for its Fund VI, rolled out in late 2021; the flagship is the biggest in Platinum’s 29-year history

\$1bn

Knox Lane closed its Fund II on that amount, beating its \$850 million target

\$20bn

Blackstone Capital Partners IX, currently the largest fund in the market, has hit that mark, according to president and COO Jonathan Gray in a Q2 earnings call

\$32bn

KKR gathered that amount in the second quarter across all strategies, the second-busiest quarter in the firm’s history, according to its latest quarterly earnings statement



Oversubscribed KKR 'turning away' LPs

In a tough fundraising market, KKR is in the enviable position of trying to accommodate robust limited partner demand for its debut mid-market buyout offering, **writes Kirk Falconer.**

Ascendant Fund, launched in 2022, met its \$4 billion target in the second quarter, CFO Rob Lewin said in the firm's Q2 2024 earnings call. The vehicle, which remains open, had secured nearly \$4.1 billion as of June 30.

Since then, Ascendant has oversubscribed on its \$4.6 billion hard-cap, Craig Larson, head of investor relations, said, putting KKR in "a pretty advantageous spot at the moment." The only challenge appears to be satisfying those many

“In private equity, activity is picking up”

Scott Nuttall, KKR

LPs still looking to commit capital.

"To be clear, we are turning away clients that want to begin final diligence," Larson said. "And for some of those clients through final diligence, we're cutting back on allocations."

Ascendancy

Ascendant was created as an extension of KKR's flagship Americas buyout strategy. It replicates the flagship's approach but emphasizes control investing in mostly US companies with values of \$200 million-\$1 billion and EBITDA of less than \$75 million. Target sectors are consumer, financial services, healthcare, industrials, media, software and technology-enabled services.

Led by partners Brandon Brahm and Nancy Ford, Ascendant has already made half a dozen platform investments. The newest, announced this month, is Marmic Fire & Safety, a fire equipment inspection, testing

and maintenance services provider acquired from HGGC.

Ascendant Fund's popularity with LPs may signal some improvement in the fundraising outlook, co-CEO Scott Nuttall said in the earnings call.

"In private equity, activity is picking up," Nuttall said. "Monetizations are up, deployment is up, people are starting to get money back, so those with more mature programs are starting to see some of that. I think you'll see more of that as we get into the latter half of the year."

"It feels to us like there's a decent chance the private equity fundraising environment has bottomed," he added.



'Super-cycle'

If so, this portends momentum for KKR's new flagship Americas buyout fund, officially launched in June. While the firm declined to disclose the target for KKR North American Fund XIV, *Reuters* reported it is about \$20 billion, up slightly from the \$19 billion raised by Fund XIII in 2022.

KKR is targeting a near doubling in managed assets with the help of a fundraising "super-cycle," co-CEO Joe Bae said at its 2024 Investor Day. More than \$300 billion is expected to be brought in from roughly 30 strategies between this year and 2026, pushing AUM beyond \$1 trillion.

The super-cycle "is now well underway," Lewin said in the earnings call, with \$32 billion raised across all strategies in the second quarter, the second-busiest quarter in KKR's history. Of the total, \$2 billion went into private equity thanks to Ascendant and K-Series PE, a strategy designed for private wealth investors.

Fresh capital inflows helped increase KKR's AUM to more than \$600 billion as of June 30, up 16 percent year-on-year. ■



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Four-comma club Brookfield hits \$1trn of AUM

Brookfield Asset Management reached an historic AUM milestone in the second quarter as it continues to account for outsized capital inflows, *writes Kirk Falconer.*

The firm raised \$68 billion between April and June, CEO Bruce Flatt said in a Q2 2024 earnings call, bringing inflows over the last 12 months to \$140 billion, Brookfield's highest ever in a 12-month period. "As a result," he said, "we're now managing approximately \$1 trillion of assets."

Hitting the milestone puts Brookfield in a small club of alternatives giants. Blackstone reached \$1 trillion of AUM last year and today oversees about \$1.1 trillion. KKR is shooting for this goal in the next couple of years through an aggressive fundraising campaign.

Brookfield's fundraising has been surprisingly robust of late, despite the tough environment. Key to this has been accelerated product growth, especially since 2020, building on traditional infrastructure,

private equity, real estate and renewables strategies and creating a new or deeper presence in areas like credit, energy transition, insurance and secondaries.

In the earnings call, president Connor Teskey spoke to this point, noting: "Even before markets began to improve, we were able to maintain strong and consistent fundraising levels due to the diversity of our capabilities globally and through our access to many different forms of capital."

This, he added, "allowed us to remain active when markets were uncertain."

Fundraising in Q2

Most of the \$68 billion raised by Brookfield in the second quarter

\$140bn

Brookfield's inflows over the last 12 months, its highest ever in a 12-month period

"was associated with our insurance solutions channel," CFO Hadley Peer Marshall said. The balance, she said, was secured by assorted credit, infrastructure, private equity, real estate and renewables funds.

Highlights include \$4 billion raised by the renewables strategy, Peer Marshall said, with additional closes expected for Brookfield Global Transition Fund II, targeted at \$17 billion. While only \$500 million-plus was raised by the private equity strategy, much of it was for Pinegrove Capital Partners, a secondary solutions provider to the growth and technology sector, set up last year by Brookfield and Sequoia Heritage. Pinegrove's pool now totals about \$800 million.

Other private equity vehicles are expected to hold first closes by the end of 2024, Peer Marshall said. They are Brookfield Special Investments Fund II, targeted at \$3.5 billion, a financial infrastructure fund aimed at opportunities in the digitalization of payment systems, a Middle East private equity fund and a debut private equity secondaries fund.

In fact, private equity was singled out by Flatt as a key source of future growth. He noted Brookfield's origins in alternatives began 25 years ago with Brookfield Capital Partners I.

Since then, he said, "we have invested out of six funds over 20 years and generated a 27 percent gross IRR and 21 percent net IRR."

The strategy's evolution "is representative of how we have expanded our broader business," Flatt said. Going forward, he added, Brookfield sees "a strong path to significantly scale the size of our private equity business."

By staying the course, Teskey said, Brookfield should be able to bring in "another trillion of AUM over the next four years." ■



People moves Kahler lands at Riverside after ORIX departure

Riverside Company has beefed up the executive-level talent on its newer special situations strategy with the hiring of Craig Kahler, formerly of ORIX Capital Partners, as a partner, *writes Alfie Crooks*.

Kahler, who left ORIX in December of last year, will join managing partner Sean Ozbolt to help run Riverside Co's Riverside Value Fund, which closed its debut fund last year. Kahler started in the role in August.

Kahler left ORIX after more than four years as a managing director, where he was responsible for building out the firm's mid-market private equity business, among other roles. His exit from ORIX came as a part of several senior departures, as ORIX began to wind down its US private equity business and turn its focus to credit strategies.

Larger build-out

The hiring comes as part of a larger build-out of Riverside Value Fund's team, according to a Riverside spokesperson, which closed Riverside Value Fund I last June at a target of \$350 million.

Kahler appears to be joining just ahead of the firm gearing up to raise its second fund. A spokesperson declined to talk about fundraising. The firm expects the revamped team to help continue its aim of identifying and acquiring North American companies at value prices and exiting with healthy company growth multiples. ■

Emerging managers Knox Lane hits \$1bn on Fund II

Knox Lane, an emerging manager that formed in 2019, has joined the \$1 billion club, *writes Chris Witkowsky*.

The San Francisco-based firm closed its second fund on its \$1 billion hard-cap, beating its \$850 million target. Fundraising commenced last year and was essentially finished around year-end but stayed open to allow in last-minute investors, sources say.

Knox Lane raised its fund through what many describe as the toughest fundraising environment since the global financial crisis. Ironically, the firm raised its debut fund during another historic fundraising contraction, in 2020 during the covid-19 pandemic shut-down when firms had to meet LPs virtually.

'100 percent re-up rate'

"We benefited from an incredibly supportive group of LPs who have gotten to know the team and strategy well through investments in Fund I," the firm's managing partner and founder John Bailey says. "We were in a position where we had 100 percent re-up rate from our institutional LPs, which put us in a nice place when we opened up to new investors later on."

Knox Lane closed its debut fund on \$610 million in 2022. The

firm makes control, mid-market buyouts in both services and non-discretionary consumer companies with EBITDA of around \$10 million to \$50 million. End markets include pharma services, IT services, residential services, consumer healthcare, commercial and facility services and broader consumer services.

The firm partners with owner-operators who are looking to sell to and/or work with an investment firm that can grow the business beyond their own capabilities.

That seller cohort continues to be motivated to find a strategic partner, despite a gap between buyer and seller pricing expectations, Bailey tells *Buyouts*.

"They're not looking to time and top-tick the market, and getting a value-add partner on the business is more important than the last dollar and cent that goes into the deal," Bailey says. "For us, the pipeline has been pretty busy. I'd say we've had no shortage of opportunities."

Knox Lane has made two investments out of Fund II: Guardian Fire Protection Services, which provides fire and life safety services, and All Star Healthcare Solutions, a healthcare staffing services company.

Bailey formed Knox Lane along with co-founder Shamik Patel. Bailey worked at TPG Growth for eight years, leading consumer investing. He left in 2015 to become president and CFO of Elf Beauty, a TPG-backed makeup and beauty products brand that went public in 2016. Patel worked at TPG Growth for seven years leading services investing. ■

“We benefited from an incredibly supportive group of LPs”

John Bailey
Knox Lane

Worth the wait Platinum Equity nabs \$12.6bn for latest fund



Platinum Equity secured \$12.6 billion for a sixth flagship buyout offering after a long stretch on the fundraising trail, **writes Kirk Falconer.**

The Los Angeles manager cited the amount raised in a presentation in July to Alaska Permanent Fund. It is not known if Platinum Equity Capital Partners VI has closed. Platinum did not respond to a request for comment.

Rolled out in late 2021, Fund VI's target has been unclear, with pension documents reporting a range of \$12 billion-\$15 billion. At \$12.6 billion, the flagship is nonetheless the biggest in Platinum's 29-year history, exceeding by 26 percent its 2019-vintage predecessor.

Slower fundraising, now in its third year, continues to weigh heavily on the private equity industry. Because many limited partners remain short of allocation capital, the effects are widespread, impacting even large general partners typically favored in this market.

A clear sign of ongoing challenges

is fundraising timelines. Due to weak supply, sponsors of all types and sizes have kept funds open longer, resulting in record time on the road. Globally, GPs took an average of 18 months to close funds in the first half of 2024, affiliate title *Private Equity International* reported.

Gores' legacy

Platinum was founded in 1995 by chairman and CEO Tom Gores, a billionaire investor and owner of the National Basketball Association's Detroit Pistons. The firm got started investing principal capital before launching a flagship series in 2004.

Today, Platinum has more than \$48 billion of AUM and employs north of 300 professionals, including almost 200 investment professionals, worldwide. Co-presidents Jacob

Kotzubei and Louis Samson, among a dozen partners, joined Gores in the top leadership in 2023.

The flagship strategy focuses on control investing in complex deals, such as carve-outs, take-privates and special situations, engaging mid-market and larger businesses mostly in North America.

Sectors of interest are manufacturing, distribution, transportation and logistics, equipment rental, metals services, media and entertainment, technology and telecommunications.

Fund VI is expected to write equity checks of \$150 million-\$2.5 billion for 15-25 investments, *Buyouts* previously reported. Target companies have enterprise values of \$500 million to greater than \$5 billion.

Recent commitments

The flagship was roughly 42 percent committed to 12 investments as of June, Platinum said in the APF presentation. The firm's recent activity includes agreements to buy outdoor gear supplier GSM Outdoors from Gridiron Capital and to take private aerospace products maker Héroux-Devtek. Both deals were announced in July.

Platinum also recently announced the sale of BluRoc, an access road and clearing services provider, to Mollitiam Holdings, marking its final exit from Yak Access, sold in March to United Rentals for about \$1.1 billion.

Last year, Platinum unveiled a second offering complementary to the flagship but oriented to lower mid-market opportunities. *Buyouts* in February reported Platinum Equity Small Cap Fund II as seeking \$1.75 billion.

However, the manager in its APF presentation put the target at \$2.25 billion. ■

\$48bn

Platinum Equity's AUM

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A trade association for some of the world’s largest pension, sovereign wealth and endowment fund managers has rebooted its proposed template for quarterly fees and expense reporting that backers hope will (voluntarily) become industry standard, *writes Bill Myers*.

The Institutional Limited Partners Association reopened its comment period for its quarterly reporting template on August 6. The group originally posted its proposed template June 3 - barely two days before the US Court of Appeals for the Fifth Circuit struck down the US Securities and Exchange Commission’s sweeping private funds rules.

Neal Prunier, managing director of industry affairs for ILPA, said there are “granular” and “structural” changes to the newly proposed template. A big question, for instance, is whether, and how, existing funds might be grandfathered past the new reporting requirements. But the biggest, if unspoken, change is that the regulatory pressure is off, leaving room for ILPA’s industry-driven approach, Prunier said.

Any templates ILPA ever offered were “going to have to be adoption-oriented,” Prunier said.

Back to square one ILPA reboots quarterly fees template

With the SEC rules off the chessboard, ILPA wanted to be even more flexible with the industry, he added.

The Fifth Circuit’s decision meant that private fund managers and their allies won the day. In carrying out the battle, though, some fund managers began to see their relations with LPs a little differently.

While the case was argued, many firms prepped themselves to comply with the new rules, including setting up quarterly reports. That gave them some insights into how they talked with their investors, and the post-Fifth Circuit consensus now seems to be that maybe the

industry can do a bit more to let some daylight in on their magic. “We’re certainly reaping the benefits of that,” Prunier said of the new template.

“I think something that stood out to me from my initial reading of the Fifth Circuit ruling is that a private fund should be focused on fund performance, not every investor’s performance.

“Well, transparency is paramount to that performance, to understanding the timing of the cashflows as well as the fees and expenses. It’s something that the industry can work together on collaboratively. Let’s get together and prove that.”

ILPA’s report template

Question	ILPA proposal	SEC rule
Audit/accounting standard?	Same standard used in financial statements	GAAP
Grandfather clause for existing funds?	Asks whether it should apply to funds still in investment period or to a given period (say, three to five years)	Grandfathered all ‘legacy’ funds in place as of compliance date
Implementation deadline	First quarter, 2026	March 2025
How long after quarter are reports due?	Defers to partnership agreement, or other reporting (such as year-end audit)	45 days after end of quarter
When should new funds offer first report?	Asks whether it should apply to funds with a certain amount of results (say, between two and four quarters), or whether it should occur after events such as a capital call	After second quarter

Source: ILPA, SEC

Industry earful sought

If adopted as written, the new template won’t be implemented under ILPA’s voluntary guidelines until the first quarter of 2026. ILPA will take comments on its template until October 11. Prunier said he’s hoping to get an earful.

“We really want to increase awareness and get as much industry participation because we do want this to be the standardized template not just in the US, but across the globe.” ■

People moves

CPP Investments taps Caitlin Gubbels

Canada Pension Plan Investment Board, one of the world's largest investors in private equity, appointed Caitlin Gubbels to lead its global strategy, *writes Kirk Falconer*.

Effective October 15, Gubbels will replace Suyi Kim, CPP Investments' global head of private equity since 2021. Kim is leaving to pursue "new global investment leadership opportunities," the C\$647 billion (\$471 billion) pension system said in a statement. No details were shared. She will remain with the organization until November to support the transition.

Second female lead

Gubbels will become CPP Investments' second consecutive female private equity head. Along with joining the senior management team, she will lead teams focused on direct private equity, private equity Asia and private equity funds and secondaries.

Gubbels has worked at CPP Investments for nearly 14 years, hired in 2010 as a principal from CIBC World Markets' investment banking group. A Canadian, she holds a Bachelor of Commerce from Dalhousie University.

Gubbels currently leads the private equity funds business. In that role, she oversees CPP Investments' partnerships with many of the industry's top general partners, including Advent International, Blackstone, Carlyle, CVC Capital Partners, EQT, Hg, KKR, Silver Lake, Thoma Bravo and TPG. ■

Bridging the gap Onex raises \$1.8bn for mid-market fund

Onex, which last year paused fundraising for a sixth flagship buyout offering, secured nearly \$1.8 billion for two funds still active in the market, *writes Kirk Falconer*.

The Toronto manager had as of the second quarter raised about \$970 million for ONCAP V, CEO Bobby Le Blanc said in a Q2 earnings call. This puts the mid-market and small-cap buyout fund within reach of a \$1.5 billion target, *Buyouts* has reported.

Onex also raised about \$820 million for Onex Partners Opportunities Fund, Le Blanc said. Unveiled in the firm's Q4 2023 earnings call, the bridge vehicle enables Onex to make a handful of investments until it resumes flagship fundraising.

Pause button

In spring 2023, Onex hit the pause button on Onex Partners VI, earmarked for mid-market and large-cap buyouts. The fund had at that point raised \$2 billion against a reported \$8 billion target.

The decision was made to allow Onex "to focus on generating strong operating company value

and realizations," Le Blanc said at the time, and return more capital to limited partners.

Bridge funds were often used by sponsors in the years after the global financial crisis to provide interim capital and tide firms over until fundraising improved. Onex Partners Opportunities Fund, which has no target, will perform this function by capitalizing "four or five deals or so," Le Blanc said in the earnings call, alongside co-investors.

ONCAP V and Onex Partners Opportunities Fund have several months left of fundraising prior to closing, he said.

Flagship timing

In answer to a question about the potential resumption of flagship fundraising, Le Blanc said much depends on the performance of Onex Partners V "from an IRR and return of capital perspective."

"Our LPs are obviously rooting for us," he said, "but I do think we're going to need some more DPI and a bit more seasoning."

This "was the whole point of the opps fund, to have the next 18 months or so to do that, show those results, and then begin fundraising again on a normal fund structure."

Despite a challenging exit market, Onex continued to make progress on realizations in the second quarter. The Onex Partners platform, for example, agreed to sell shares of PowerSchool in connection with the education technology company's \$5.6 billion take-private acquisition by Bain Capital. The deal, together with completion of the ASM Global sale in the third quarter, is expected to generate roughly \$1.6 billion of proceeds. ■



Gotham stalls Private equity underwhelms for NYC pensions

New York City Pension Fund, which comprises New York's five public pension systems, reported a 5.1 percent return on its private equity allocation for the fiscal year 2024, falling short of the targeted return, *writes Alfie Crooks*.

The performance will come as a disappointment after the individual pension funds have increased their exposure to private equity.

The New York City Comptroller, which manages the pension fund, reported a 10 percent overall investment return, with PE returns making up 5 percent of that share, while amounting to 9.8 percent of the portfolio. The pension fund's returns exceeded its overall target of 7 percent set for fiscal year 2024.

Mixed bag

In its report, the Comptroller noted that headwinds were likely caused by the continued transition to higher base interest rates and a slow-down in mergers and acquisition activity, which has reduced portfolio value-creation realizations, company sales and exits and capital distributions to limited partners.

This subpar performance from private equity shortly follows increased private equity allocations from a number of the pension funds in the system. Last month, the New York City Employees Retirement

System revealed commitments totaling \$730 million to private equity, pushing contributions to 10.87 percent, above its target of 10 percent.

New York City Fire Department Pension Fund also made commitments totaling \$225 million to private equity in June, as reported by *Buyouts*. Similarly, last year, Teachers' Retirement System of the City of New York agreed to raise its private equity target to 10 percent from 7 percent.

Staying the course

Despite the relative under-performance of private equity assets over the last year, many of the pension funds have continued to increase their private equity targets for the coming fiscal year. Teachers Retirement System, NYCERS, New York City Police Pension Fund, and NYCFDPF have all increased their private equity targets by at least 2 percent, with NYCFDPF leading the pack by raising its target from 8 percent to 12 percent.

New York City Board of Education Retirement System was the only pension system that didn't increase its private equity target, lowering it to 7 percent from 8 percent.

Despite the headwinds, the city's pension funds look secure in their commitment to the asset class. ■



Private credit Alameda County pension to speed up roll process

Alameda County Employees' Retirement Association wants to give more authority to its private credit investment staff to roll its stakes in private credit assets into continuation funds, *writes Alfie Crooks*.

The new policy, which was proposed at the system's investment committee meeting on August 7, would let ACERA's staff make the decision to roll existing assets or portfolios into continuation funds if that falls in line with ACERA's financial consultant's recommendation. The policy will need final approval from the full retirement board. A spokesperson for the system did not return a request for comment.

Sell or roll faster

The rationale for the policy change was to allow investment staff to make quicker roll decisions, enabling them to participate in continuation funds, rather than just sell.

The timeline for LPs to make their sell or roll decision in continuation fund deals is often tight, giving them 10-20 business days to choose. This is shorter than the 30 days recommended by ILPA.

"Because of this truncated timeline it is likely that there isn't enough time to complete investment and legal diligence on the continuation vehicle (and liquidity option) along a timeline that would accommodate Investment Committee and Board approvals before a decision is due," according to ACERA investment committee meeting materials. ■

Trending smaller NY State Teachers' pension weighs shift



New York State Teachers' Retirement System is considering a major shift away from large buyouts in favor of the smaller side of the market, which would put it among several large systems that have recently made similar moves, *writes Alfie Crooks*.

NYSTRS, at its July 31 investment committee meeting, considered recommendations from its private equity adviser StepStone Group to increase its small/medium buyout target to 55 percent from 45 percent of its private equity portfolio and decrease its large/mega-buyout target to 15 percent from 25 percent.

This proposed shift of focus came in tandem with the fund highlighting that it was looking to rebalance its portfolio, moving away from "legacy relationships," possibly through the secondary market.

A NYSTRS representative did not respond when requested for comment.

The decision to increase small/medium buyouts' portfolio share

falls in line with other large public LPs, who have also recently leaned towards smaller buyouts opportunities. Systems such as California Public Employees' Retirement System and Teacher Retirement System of Texas have both shifted their strategies towards smaller GPs over the last year, using their additional resources to find better arrangements while maintaining strong performances.

Despite it receiving recommendation to reduce its targeted private equity commitment to a range of \$1.8 billion to \$2.2 billion from \$1.6 billion to \$2 billion this year, NYSTRS could still aim to spread its capital across smaller GPs in a fashion similar to the strategies of CalPERS and Texas Teachers. The

system's retirement board meeting documents outline opportunities to identify niche funds to complement its existing portfolio.

One way that NYSTRS could reduce the large/mega-buyout's share of its existing portfolio could be through the secondary market. Last year, NYSTRS, advised by Mozaic Capital, sold off \$6 billion of private equity fund stakes as a way of rebalancing its portfolio, which targeted private equity allocation at 9 percent despite retaining a 10.9 percent actual share.

Currently, NYSTRS' actual private equity allocation runs at 9.5 percent, according to data provided by NYSTRS. While presenting to its investor committee, the system noted that it could re-enter the secondary market to further rebalance its portfolio towards a greater share for core fixed income and move away from its "legacy relationships."

Secondaries opportunities

NYSTRS' activity within the secondaries market started in 2019 when the system, advised by Mozaic, offloaded a portfolio to reduce legacy fund of fund exposure. This move was followed by the sale of a portfolio valued at \$2.6 billion on the secondary market in 2021.

The explosion of the secondaries market, which has grown from \$44.5 billion in 2014 to \$114 billion in 2023, has also granted larger LPs, like NYSTRS, the opportunity to find buyers for its buyout portfolios with greater ease.

While it remains to be seen whether NYSTRS will follow through on the reduction of its large/mega-buyout portfolio, a re-entry into the secondary market could present an opportunity for putting greater focus on smaller buyouts in its portfolio, as other large systems have shown. ■

55%

NYSTRS' potential small/medium buyout target

Have some private equity-backed assets become too big to exit?

That's a theme we're exploring at *Buyouts*. We are hearing that in some cases mega-fund GPs are looking for alternatives to traditional M&A sales for their largest companies as traditional exit paths have narrowed.

Some assets have grown so large that only a handful of other sponsors or strategic buyers could acquire them outright. And with the public markets having been mostly shut as an exit option, liquidity alternatives are limited.

Sponsors and monsters

It's an ironic situation in that PE sponsors have successfully grown these businesses to a point where now an exit has become a challenge.

Secondaries is one potential option for large assets that are tough to sell. A sponsor moves the company out of an older fund into a continuation fund, cashing out LPs who want the money, and bringing in new investors. We're starting to see examples of continuation funds on continuation funds - CV processes to cash out investors (including rolling LPs) in past CV deals.

It's potentially a way for a firm to gradually pare down their stake in a large company, selling partial stakes to new investors, cashing out LPs while still managing the growth of the company and eventually fully exiting. A longer timeline, for sure, but something akin to almost a private IPO.

Partial stakes

We're also seeing a wave of GPs selling partial stakes in their portfolio companies, bringing in minority partners as a way to bring in some proceeds for LPs, and pare down their stakes.

Asset bloat Mega-fund GPs face a too-big-to-exit challenge

Comment



Expert analysis by **Chris Witkowsky**



“LPs are really asking for realizations”

The slow exit environment has exacerbated this issue as LPs look for GPs that can deliver proceeds in reasonable timeframes. Though it's not even so much that LPs need liquidity; it's more a question of fund investors looking for their managers to prove out their strategies through exits, before committing to the next fund, one LP source told me.

It's much harder to assess a GP with recent funds full of mostly unrealized positions, the source said. “Most LPs don't have liquidity issues. LPs are really asking for realizations for the validation of the strategy,

validation of your valuations,” the source said.

Looking to the mid-market

Exit challenges at the larger end of the market are contributing to a shift among some large LP institutions to smaller funds, sources have told me in recent interviews.

Exit paths are well defined in the mid-market, where GPs grow companies up to a certain point after which they are no longer in a position to help scale the asset. It's time to sell, and buyers are plentiful for mid-market assets.

It's a trend we'll be looking into over the coming months. Let me know if you have any thoughts. ■

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Editor's letter

Tech transforms higher education



Karl Shmavonian

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It's September! Football season is upon us, and it's time to head back to class (unless you play football). With that in mind, our cover story, by Iris Dorbian, delves into investment in education, specifically the edtech niche.

Covid distorted a great many markets, and education was no exception. With the outbreak of the pandemic, schools had to turn on a dime and conquer the remote model, learning our A-to-Zooms, as it were. This meant a big upswing in edtech investment, a great opportunity for private equity, with global PE deal activity hitting \$27.4 billion for 2021, with the US snagging \$17.1 billion of that for the same period.

Since then, things have slowed down, but investors are bullish on the countercyclical nature of the sector: "Whenever there has been a recessionary fear, that's when I get a call from 30 to 40 private equity firms," says Jacob Voorhees, managing director of Navagant, an education-focused investment bank.

Tech investment can't solve teacher shortages, declining birth rates and subsequent lower enrollment, but it can help fill gaps for schools that have little or no budgets.

Cynics would say that we've been throwing money at education for decades, and the results have not been great. And there is great disparity in access to education, primarily due to demographics and income levels. The hope is that focused investment goes to the neediest schools and districts. After all, education can be seen as a metaphor for wealth inequality in the US – if you've got a lot of money (you work in PE, say) you send your kids to private schools that launch them into good colleges, which gives them the chance to get good jobs (in PE, say), which allows them to pass it along to their kids. Rinse and repeat. For those without a lot of money, there are great public schools out there, but it helps to win the zip code lottery to get your kids enrolled in them.

Enough lecturing. Welcome back to the new school (and work) year.

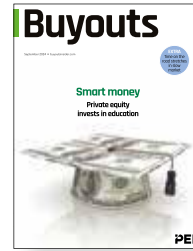
Karl Shmavonian

“ Investors are bullish on the countercyclical nature of the sector ”

Back to



school



Cover story

Despite a post-covid dip, private equity's appetite for the education sector is strong, with technology driving the bulk of interest.

By *Iris Dorbian*

The education sector took a hit early during the covid-19 outbreak as schools shifted from in-person classes to virtual sessions. To compensate for that new reality, a profusion of edtech services was introduced to streamline teacher training and student comfort. The market became hot – and then not so hot.

Lately, dealmakers have become bullish again, with much of that interest being driven by both the sector's recession resiliency and the transformative effects of technology. Also, the market's fragmentation, encompassing subsectors K-12, higher education and corporate training, is another sweet spot.

New pools of capital have been

Going pro

After exiting an early childhood education provider and acquiring another one, Avathon Capital makes a foray into professional learning with the purchase of a healthcare education provider, writes Iris Dorbian

Since launching the strategy in 2016, Avathon Capital has prided itself on being a specialist in the education and workforce markets. For the Chicago-based lower mid-market buyout shop, the sector's prime attractions include its fragmentation, transformative potential and scalability. But it's also about making a positive impact on society.

"Our commitment to the education and workforce markets is not just about financial returns," says Shoshana Vernick, managing partner and co-founder of Avathon Capital. "It's about fostering growth, innovation, and excellence in sectors that are foundational to our economy and society."

Avathon's recent acquisition of Magical Beginnings, a network of early childhood education centers in the greater Boston area, is an example of its investment strategy and approach. The deal represented the PE firm's second foray into the early childhood education space following its sale of portfolio company Big Blue Marble Academy, an early childhood education provider across the Southeast US, to Leeds Equity Partners.

"This experience has strengthened our understanding of the early childhood education market and its unique dynamics," says Vernick.

This past April, Avathon took a detour from this area to home in on the professional



Shoshana Vernick,
Avathon Capital

learning niche with its acquisition of Summit Professional Education. Headquartered in Franklin, Tennessee, Summit is a provider of in-person and online continuing and professional education courses for physical therapists and assistants, occupational therapists and assistants, and speech language pathologists.

The deal marked Avathon's entry into the healthcare professional education space.

"Summit provides the ideal platform for us to build upon, given its scalable business model, extensive course library, and strong market reputation," explains Vernick. "We see significant opportunities to expand Summit's offerings and enhance its impact on professional development across various fields."

Avathon's goals for Summit are to grow it via add-on acquisitions while improving the company's technological capabilities and content delivery. "Ultimately, our objective is to create a significantly larger, durable organization that brings market-leading, highly relevant professional education to its clients," notes Vernick.

Asked how long

the firm plans on holding onto this investment, which was funded by a combination of Avathon's Fund II, which closed on \$200 million in 2019, as well as co-investment capital from two LPs, Vernick says they "will evaluate exit opportunities when the company has achieved significant milestones and is well-positioned for continued success."



raised to, in part, invest behind the growth of the edtech segment that PE firms are considering a non-cyclical investment. One of the most notable in recent years was SEMCAP's Seminal Educational Investments SPV I, which closed on \$954.5 million in October 2021, as per research from affiliate title *Private Equity International*.

LPs appear to be on board with the growing exposure to the strategy. "On the buyout side, some of our clients are invested in SaaS software investors who frequently target the edtech vertical," says Ethan Samson, managing principal of private markets at Meke-ta Investment Group, an investment consultant and adviser. "Typically, our clients with an interest in edtech are at least partially mission-oriented. Their interest often stems from a desire to achieve both market-rate returns and secondary goals."

In a similar vein, Di Tang, a senior investment director of impact investing at investment consultant Cambridge Associates, notes that as funding from pandemic-era federal legislation dries up and school districts are hit with budget constraints, "the allocation for technology continues to be very important because across the US you're facing teacher shortages. What's going to boost that [and student performance] has to be technology... It's a distinct category but as long as there are disciplined investors in the space, we think we can generate market returns."

\$8 trillion by 2030

Recently, *Buyouts* spoke to several private equity investors whose firms have inked deals in the education sector within the past year to find out their reasons for doing so, as well as their goals. Though none would disclose the financial terms of these transactions, their keen enthusiasm for their respective target companies indicates robust investor appetite.

Yet there are challenges: birth

declines are causing a drop in student enrollments and decision-making in school districts can often be a lengthy, bureaucratic process. As a result, PE investing in the sector is not only problematic at times but also a trial of endurance.

Still, projections are exceedingly upbeat. According to Morgan Stanley research, the global education market is estimated to soar to \$8 trillion in value by 2030.

Some industry experts might deem this estimate to be exaggerated; however, evidence suggests that private equity tends to circle this space during times of economic uncertainty.

"Whenever there has been a recessionary fear, that's when I get a call from 30-40 private equity firms that have not invested in this space before," says Jacob Voorhees, managing director of Navagant, a Virginia-based mid-market education-focused investment bank and M&A adviser.

With downturn anxieties subsiding, Voorhees notes there is "a heightened demand for education and training companies as private equity firms want to invest in countercyclical assets that also perform well during the boom times."

The statistics bear this out: dealflow is a constant even if US and global private equity investing in the education space has slipped since the height of the pandemic. Per PitchBook data, global PE deal activity racked up \$27.4 billion for 2021, with US snagging \$17.1 billion for the same period. For 2023, global PE deal activity dipped to \$13.8 billion while the US raked in a total of \$6.4 billion. As of late May 2024, the global number is \$4.9 billion with US grabbing \$1.5 billion.

Bain does its homework

Despite the lower post-pandemic figures, private equity continues to gravitate toward education. One of the most active investors in this sector is Bain

"[There is] a heightened demand for education as private equity firms want to invest in countercyclical assets"

JACOB VOORHEES
Navagant



“There’s a stickiness [in the education sector] that drives predictable cash flow with reasonable growth”

LARRY SHAGRIN
Millpond Equity Partners



Capital Double Impact. After investing in myriad edtech companies and service providers, which include TeachTown, Penn Foster and Meteor Education, Bain Capital’s impact investing strategy recently zeroed in on another edtech firm, Branching Minds.

For Bain Capital Double Impact partner Iain Ware, investing in education is not a passing fad but rather a central part of the firm’s investment thesis.

“We strongly believe education and training are critical for economic opportunity,” Ware tells *Buyouts* when asked about his firm’s affinity for the space. “The challenges facing us as a society are not going away – learning losses continue to worsen – the pandemic contributed to that. The labor market is going through significant dislocation. As investors, now is an interesting time as there will be significant opportunities for high-quality solutions to thrive.”

Enter Branching Minds. Based in New York City, Branching Minds’ software provides multi-tiered system of supports (MTSS) to school districts and educators when identifying students’ strengths and deficiencies across various disciplines. It puts students on a specific academic track as they progress through school while offering intervention plans for those who may be struggling or might need additional guidance.

“We knew the MTSS framework was an important and exciting one in the field,” says Ware. “Off the back of that, we were trying to figure out who was helping districts do that work with fidelity and came across Branching Minds as an emerging leader in this space.”

Bain Capital reached out to co-founders Maya Gat and David Magier in the summer and fall of 2022.

“They had never done a major institutional fundraising round,” recalls Ware, describing Bain Capital’s

early discussions with Branching Minds. “They were looking to bring on a partner to help them scale the business and take it to the next level. They were looking for a partner that was deep in education, believed in their mission and had the financial resources to invest in the business.”

Talks got serious in the fall of 2023, with Gat and Magier agreeing to sell Branching Minds in December; the closing occurred in early 2024.

“Double Impact is about driving student outcomes, especially students who have been underserved one way or another, whether it’s academic or having social/behavioral issues,” says Ware, explaining how the deal is aligned with the firm’s investment strategy. “It really gets to the core of what we’re trying to do.”

Asked about Bain Capital’s goals with Branching Minds, Ware answers that even though add-ons are possible, right now it’s about getting the product into more schools and having it be used effectively in the classroom.

Typically, the firm has a five-year hold. However, with Branching Minds, there’s no timeline for how long Bain Capital Double Impact will hold onto the investment before the exit.

Bain Capital Double Impact Fund II, which closed in 2020 on \$728 million, was deployed to invest in Branching Minds.

Millpond and Galileo

Like Bain Capital Double Impact, Millpond Equity Partners is another prolific investor in the education space. The market’s stability, coupled with the firm’s extensive knowledge of it, are key enticements.

“We understand trends in the industry and what’s driving the industry,” says Larry Shagrin, a partner at the Boca Raton, Florida-based PE firm. “Unlike rapidly changing industries such as software or media,

[the education market] has attractive growth at a reasonable, predictable pace. Educators generally are not looking at a major dramatic change. There's a stickiness that drives predictable cash flow with reasonable growth resulting in a positive risk/return dynamic."

Millpond's recent investment in Galileo Education a holding company of education brands, is a case in point.

The deal crystallized when Galileo CEO Mark Claypool, who had also been an industry adviser to Millpond for other investments, had approached the buyout shop.

"[Galileo] had identified a pipeline of schools to acquire and they needed capital to acquire those schools," explains Shagrin, the deal lead. "They needed resources to execute their growth strategy and they were looking for a private equity partner."

Galileo (based in Franklin, Tennessee) hit all the investment criteria for Millpond as the firm usually

backs lower mid-market companies with enterprise values below \$100 million. And the fact that Galileo was founded by Claypool, a former educator, enhanced the appeal of the target company.

Following a six-month period, the transaction wrapped in early 2024. Backed by Millpond, Galileo closed on several schools, which included The Cyzner Institute (based in Charlotte, North Carolina), a private educational, therapeutic, and biomedical center for children with learning differences or special developmental and behavioral needs; and Safety Harbor Montessori Academy, a school based in Clearwater, Florida.

Millpond's goal for Galileo is to grow it into a large platform, replete with high-quality schools specializing in teaching a certain student type. The geographic focus is on the Southeast as Millpond believes states in that region tend to have a history of being more amenable to private education providers.

Millpond invested in the Galileo deal out of its most recent investment vehicle formed in January 2024. No financial terms were disclosed.

Millpond's average hold period is anywhere from three to seven years. For Galileo, Shagrin



"The challenges facing us as a society are not going away – learning losses continue to worsen"

IAIN WARE
Bain Capital



noted that Millpond is a lot more flexible as the firm is looking to create the most value for investors, so the hold could extend beyond the usual timeline.

GVC, the new kid in class

Unlike Bain Capital Double Impact and Millpond, Golden Vision Capital Americas is more of a newbie when it comes to investing in the education and edtech market. (The leadership team did have experience investing in a professional training firm but that predated the formation of GVC Americas.) The September 2023 recapitalization of Hawkes Learning, a math-focused educational software company based in South Carolina, marked the PE firm's initial foray into the higher education subsector.

GVC Americas, which normally invests in business services and health-care services companies, learned about Hawkes via Navagant's Voorhees.

"We've known each other for years," says Eli Boufis, head of private equity at GVC Americas. "[Voorhees] knew that we only invest in what we call accomplished owner/operators or founder-led businesses. He knew that we were flexible, and I was always drawn to companies that were different and very customer oriented. So what drew us to Hawkes is that this was a company where the customer developed the products."

Founded by former physics professor James Hawkes, the target company had plateaued in its growth trajectory when GVC Americas entered the scene.

"Hawkes could only take the company so far," continues Boufis. "He needed someone who could take their passion and purpose and elevate it to the next level."

Assessing the strengths and weaknesses of Hawkes Learning, GVC determined the business needed seasoned professionals to help run it. Also, on the must-do list were expanding the



software platform and adding new courses to the catalog.

Through GVC's network, the firm identified Scott Virkler, who had held senior executive roles at such companies as Illuminate Education and McGraw Hill Education, to help lead Hawkes' next chapter.

Ironically, Boufis' preliminary conversation with Virkler revealed a pleasant twist.

"I get on the phone with Scott and he says, 'I've been trying to figure out how to buy Hawkes for years,'" relates Boufis.

The deal took over a year from



"There is a technological transformation that's taking place in higher ed"

ELI BOUFIS
GVC Americas



start to finish to complete. As part of the transaction, Virkler became CEO and business veteran Brad Johnson was tapped for the chief financial role. Both had also participated in the investment.

Unfortunately, a significant hurdle remained.

"Like any founder of a business, this company is part of Dr Hawkes' identity," says Boufis. "I needed a fair price and to prove to him I wasn't going to damage his legacy. Scott Virkler and I are in the process of proving that."

Dr Hawkes has a minority ownership stake in his eponymous company while GVC has majority control. "[There was] very little to no debt because we're very focused on reinvesting cashflow," adds Boufis.

GVC Americas Growth Fund I, which closed in 2022, at over \$100 million, was deployed for the Hawkes investment. Although GVC's typical hold is four to six years before the exit, the PE firm has a five-year plan for Hawkes. "The opportunity was ripe," says Boufis. "There is a technological transformation that's taking place in higher ed and Hawkes has an incredible product. It just needs a megaphone. And that's GVC's job."

'Hitting on all cylinders'

In addition to technology, another boon for the education sector is the change in perception private equity harbors toward it. According to Voorhees, dealmakers are now more inclined to perceive it as a for-profit industry in contrast to the past, when it was considered by many as non-profit.

"When it comes down to it, most education assets are not cyclical," says Voorhees. "They're either status quo, performing well, or people are using a depressed market to hide from the job economy to go back to school. Right now, it's hitting on all cylinders with some folks. Having countercyclical assets in your portfolio can be really helpful in risk mitigation." ■

There is potential for further sizable LP opportunities within the secondaries market following a record-breaking first half for volume, especially if distributions remain muted.

LP-led deal volume accounted for \$40 billion of the \$68 billion of global secondaries volume seen in the first half of 2024 as bid-ask spreads narrowed, according to Jefferies' *Global Secondary Market Review*.

Transaction sizes continue to grow, with the market recording 10 completed LP deals of \$1 billion or greater. That compares with six deals over that mark in H1 2023.

"While these 10 transactions tend to be undertaken by large public or sovereign entities, the majority of these investors have not completed a secondary sale in the last 12-18 months," the report said.

"These large LPs continue to grapple with overallocation to private equity – in many cases as much as a 40 percent overallocation – and historically low distribution activity. This phenomenon creates the potential for significant selling activity from these large LPs over the next 12-18 months, especially if distribution levels remain low."

Furthermore, the percentage of sellers that sold for the first time increased to 45 percent in the first half compared with 39 percent across all of last year.

The LP-led market has not shied away from complexity, with investors considering a range of transaction structures for their needs, including bank loans, preferred equity, sales via special purpose vehicle transfer, managed funds and collateralized fund obligations.

"Asset managers and fund of funds increasingly favored a secondary sale via SPV transfer to generate liquidity while maintaining AUM and/or

retaining key GP relationships," the report detailed. "As evidence of this trend, one of the largest preferred equity transactions ever completed was done in H1 2024."

Private wealth aids pricing improvements

Aggregate pricing for LP transactions across all strategies increased 300 basis points from the second half of 2023, reaching 88 percent of NAV, according to the report. All asset classes saw an uplift across the first six months of the year.

In order to bridge pricing, a fifth of LP transactions saw the use of straight deferrals. Furthermore, around half of investors marketed partial commitments to core GPs "to improve pricing, retain GP relationships, right-size commitments and free up capital to redeploy into new fundraises" – an increasing trend in the secondaries market, the report noted.

"The LPs are trying to improve pricing with some very attractive components of their portfolio," Matt Wesley, global head of the private capital group at Jefferies, told affiliate title *Secondaries Investor*.

He added that the influx of private wealth capital has also been driving prices up in the LP-led market.

Compared with GP-led investments, the LP-led market is more attractive to '40 Act fund investors given their need for diversification, he said.

Jefferies estimates over \$5 billion of secondaries capital has been raised by '40 Act funds over the past year, with more secondaries fund managers raising these vehicles than ever. Around half of respondents indicate they plan to raise such funds during 2024, compared with around 33 percent of respondents indicating they had raised such capital prior to this year.

"The entry of '40 Act funds [has] become a huge new source of capital and made the LP side of the market even more competitive than it has been," Wesley said. "[The strong pricing] is just a reflection of how strong the market is today, which is... driven not just by successful fundraising of flagship funds, but also the advent of '40 Act funds."

With increased LP supply and demand, the largest secondaries buyers were "extremely active" in the first half and "bid aggressively on the large number of relatively homogenous buy-out portfolios that came to market," according to the report.

The average number of buyers on LP-led transactions increased to 2.1 from the 1.6 seen last year as a result

More LP sales ahead

*LP-led deals accounted for \$40bn of the \$68bn of global secondaries volume seen in H1 2024 as bid-ask spreads narrowed. By **Madeleine Farman** and **Hannah Zhang***

Mn Services looks at sale

Mn Services, a Dutch pension administrator, is shopping a large portfolio of LP stakes in private markets funds, sources tell Chris Witkowski

The deal is part of a series of large LP sales being driven by liquidity concerns. Average pricing for buyout fund stakes ranged between 91 and 96 percent of net asset value in the first quarter, according to PJT Park Hill. “Secondary buyers were emboldened to pay higher prices for select funds given public market valuations have increased significantly compared to reference date NAVs,” Park Hill’s first quarter secondaries report said.

Mn Services, which manages about €150 billion in assets, is shopping a portfolio valued at between €1 billion to €1.5 billion, sources say. Mn Services did not respond to a request for comment.

Also diving into the action, Alberta Investment Management Corp is selling a portfolio of private equity fund stakes valued at around \$900 million. And fellow Canadian the Investment Management Corp of Ontario closed the sale of a large portfolio of private equity fund stakes as it works to manage its investment portfolio. In the US, CalPERS is said to be exploring a potential sale, *Buyouts* previously reported. (Adam Le contributed to this report.)



of the growing size of these diversified portfolios. In several of the largest deals, there were one to two anchor buyers as well as one to two additional subset buyers.

H2's strong outlook

Despite the rush of LP-led dealmaking in the first half, GP-led volume reached \$28 billion, representing 56 percent year-on-year growth and the highest first-half volume since 2021. Jefferies noted robust demand for continuation funds has been driven by the combination of “well-capitalized new

buyside entrants, strong fundraising outcomes and increased participation of large co-investors.”

Jefferies anticipates the secondaries market will see over \$140 billion of deal volume in 2024. It expects a further near-\$40 billion of closed LP-led volume in the second half, and GP-led volume to reach \$35 billion over the last six months of the year. Increased deal volume in H2 will be “spurred by increasing transaction supply, robust secondary pricing and the signaling of interest rate cuts that may support further growth and equity returns.” ■

The healthcare valuation gap

*High interest rates have made the cost of capital expensive and have led buyers to view certain assets as worth less than sellers' asking prices, writes **John R Fischer***

A recession is “necessary” to bring down the valuation of assets and help bridge the buyer-seller gap in the healthcare IT sector, according to a partner at a healthcare private equity firm.

The partner, who was a panelist at the McGuireWoods 20th Annual Healthcare Private Equity and Finance Conference but spoke to affiliate title *PE Hub* on background, said the valuation mismatch is not an issue for ‘grade A’ companies with high valuations, but for decent assets that do not bring in as high multiples.

“There is still that spread that we believe is a little bit of an issue,” said the panelist. “In a higher interest rate environment, the cost of capital is higher, period. So, valuations do need to adjust accordingly. I just don’t think that the economy has taken the hit that it needs to. I do think that a recession is necessary to make adjustments.”

The topic of valuations was one of the main discussion points at the conference, which was hosted by law firm McGuireWoods in Chicago in May.

A recession often makes borrowing capital cheaper by lowering interest rates. For some time now, high interest rates have made the cost of capital more expensive, causing buyers to take a more conservative approach to investing. While these rates are beginning to dip, they are doing so at a slower rate than anticipated. Meanwhile, many GPs are sitting on and using large amounts of dry powder to prop up their portfolio companies, leading sellers to overinflate the value of these assets in buyers’ eyes.

Buyer-seller disconnect

In a separate panel session on the exit landscape, Anthony Hayes, a partner at Denver-based healthcare PE firm Revelstoke Capital Partners, also acknowledged the increased cost of capital has created a “pretty big disconnect” between seller expectations and what buyers are willing to pay in healthcare.

Hayes summarized the buyer-seller disconnect by saying an asset a seller puts on the market for a dollar is more likely to be viewed by buyers as worth

80-85 cents in the current economic climate.

He added that the valuation disconnect has put pressure on capital-intensive businesses. “I think, conversely, for assets that have higher growth, healthy margins and don’t rely on substantial capex or M&A to fuel that growth, we’ve seen those continue to generate higher valuations.”

Several conference attendees said there are signs dealmaking is expected to pick up over the next year, and many agreed this past year was better than last.

Some said that LPs are looking to invest in new businesses and putting more pressure on firms to start making deals. LPs seeking returns on their current investments are also doing the same with sellers. This in turn is putting pressure on both sides to bridge the valuation gap.

Other attendees, however, were not as optimistic, and most firms said that for the time being they are trying to maintain a cautious approach to transacting. ■

The earlier the better

Demand for preventative care is rising, says Peter Morrow, as employers and employees seek to save on spiraling healthcare costs, writes John R Fischer

In early August, Consello Capital, the private equity arm of Consello, announced the acquisition of preventative care network EHE Health from Summit Partners and DW Healthcare Partners. The deal is the PE firm's second deal as well as its first healthcare acquisition.

Founded in 2022, New York-based Consello Capital targets mid-market business services, consumer and retail companies. Consello has attracted an impressive array of talent, including business executives and celebrity athletes, such as Tom Brady and Serena Williams, who serve as partners.

Healthier, more productive

EHE is a more than 100-year-old national preventative care network with over 400 certified physicians at seven clinics and over 200 practices in 42 states and Puerto Rico.

The New York company partners with corporations to provide their employees bases with access to comprehensive exams and screening, among other things, to facilitate early-stage diagnoses.

Consello managing partner Peter Morrow, who previously co-founded Sycamore Partners, a PE firm focused on consumer, retail and distribution related businesses, says that healthcare costs are an expense item for frequent self-insured corporations.

With these prices now exceeding historic levels, preventative care saves employers substantially by diagnosing



conditions early on when they are easier – and less expensive – to treat.

“Just about the only thing a big company can do to address rising healthcare costs is to prevent the health outcomes driving most of those expenses,” Morrow says. “By offering preventative care as a benefit, you have not only a healthier, more productive employee base but help address rising healthcare costs. This has positive ROIs for customers.”

Consello Capital is open to add-on deals and plans to invest in EHE's geographic expansion.

“Our platform uniquely enables us to connect with senior leaders of large organizations in a way that's often hard for a mid-market company,” says Morrow. “A big challenge for service providers like EHE Health is reaching the right decision-makers within a company and articulating the value of their services.”

EHE Health screens for cancer, cardiovascular and other physical

conditions, as well as chronic diseases, including heart disease and diabetes. It also offers behavioral health, nutritional and fitness services, vaccinations/immunizations and in-person and virtual health programs.

The cost of missing preventative care

According to the National Academy of Medicine, missing prevention care costs the US up to \$55 billion annually. Only 8 percent of Americans undergo routine preventative screenings, reported the Organization for Economic Co-operation and Development.

Demand for preventative care is rising, says Morrow, as many people seek to save on healthcare costs and on a macro level, are finding the search for primary care physicians challenging. According to McKinsey & Company's *2024 Future of Wellness Survey*, roughly 70 percent of US consumers said they purchased more products and services that support healthy aging and longevity in 2023 than in previous years.

Technological advancements, including in AI and digital health, are also making it easier to identify diseases earlier. “People are investing in new technologies and new ways to increase the value of preventative care that people are getting,” says Morrow. “I think it's a space we'll continue to see investment in as people appreciate the benefits and advantages of these new technologies.” ■

The multi-year M&A disconnect between buyers and sellers in auctions has created a nascent practice of secondaries investing, including continuation vehicles (CVs), for funding conventional and long-life oil and gas production reserves, as it has in other industries.

Single-asset CVs keep the general partner and limited partner relationships intact while providing liquidity to investors who can roll shares over into the vehicles. The strategy also allows the target company to pursue add-on acquisitions to grow the business over the next hold cycle.

Affiliate title *PE Hub* has had several conversations with dealmakers, investment bankers and other advisers in the energy sector about the appeal of CVs. Below, we share insights from some of them, along with some deal examples.

M&A exits in the oil and gas market are few and far between, with just a small handful of deals involving private equity-backed sellers and buyers over

recent years. Meanwhile, the lucrative Permian Basin, an unconventional production region in west Texas, continues to draw headlines for public-company-to-public-company deals.

“There’s no exit market right now in oil and gas, and GPs have struggled to provide liquidity for investors,” Matt Swain, head of direct placement and secondaries at investment bank Houlihan Lokey, tells *PE Hub*.

“The M&A market and price support is not there. A number of fund managers need liquidity after being in these energy investments for well over the investments’ expected life. Continuation vehicles are very often the best solution.”

Energy CVs involving a two- to three-year return on cash investment have proved popular. Many deals have seen 2x oversubscribed interest with cashflow yields between 20 percent and 30 percent, he says.

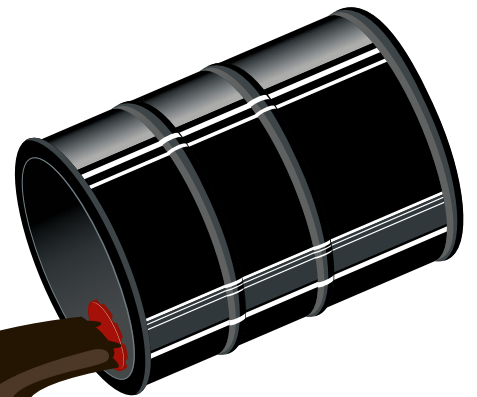
“There’s quite a bit of money that’s

not chasing deals outside of the Permian Basin, which makes M&A tough,” Swain says.

“Capital allocators in Texas only want to allocate in the Permian or adjacent regions [so] it’s just another reason to do a continuation vehicle.”

With WTI crude oil currently trading at less than \$80 per barrel and with additional macro instability, Swain says more continuation vehicles will continue to be raised for oil and gas production in and outside of the Permian Basin.

Another key feature of an energy CV deal is the dry powder component, which provides new capital for



Trudge through the sludge

With oil and gas exits at a standstill, investors turn to single-asset CVs. By Michael Schoeck

PE-backed energy companies to pursue add-on acquisitions while recapitalizing its equity base. Swain says typically 25 percent of a CV is new capital used for add-ons and new opportunities.

Oversubscribed

One example came in 2023, when energy PE firm GEC arranged a \$215 million CV for its portfolio company Estis, an artificial lift oilfield services business, with Kline Hill Partners serving as lead investor. In June 2024, GEC merged Estis into another of its portfolio companies called Flowco and folded in White Deer-backed Flogistix.

In another recent example, in June, conventional oil producer Aspenleaf Energy raised a C\$800 million (\$585 million) continuation vehicle by existing sponsor ARC Financial, a Canadian PE investor, and new investors. The deal provides over C\$400 million (\$300 million) of liquidity for ARC Energy Fund 7's investors and co-investors and raises over C\$100 million in new capital for the Alberta company.

ARC managing director Kent Foster says the catalyst for the transaction was providing liquidity for existing investors while creating an attractive investment opportunity for new investors.

Ultimately, the PE sponsor saw more legacy investors elect to maintain their exposure in Aspenleaf than ARC originally expected, while being about 2x oversubscribed on equity interest in \$400 million of the CV round.

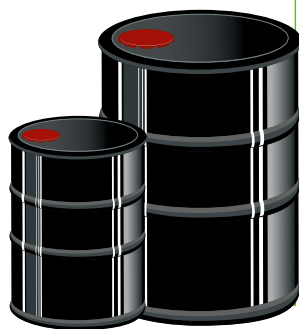
A source familiar with the investor says in addition to the C\$400 million component of the C\$800 million CV being 2x oversubscribed, more than 80 percent of investors in the CV rolled their equity position over into the current CV on a dollar for dollar basis.

Aspenleaf holds about 350,000 acres in the Leduc, Swan Hills and Twining oil fields of western Alberta, containing over two billion barrels of oil reserves in place, with recovery to date of just under 10 percent. The company has



“The M&A market and price support is not there”

MATT SWAIN
Houlihan Lokey



355 wells producing 25,000 barrels of oil equivalent per day (BOEPD), or 9.1 million barrels of oil equivalent per year.

Aspenleaf CEO Bryan Gould says the CV financing provided an attractive liquidity raising option after the company previously tried to sell the business in an M&A process.

The CV is well suited for the conventional Canadian oil producer, which Gould says will provide sufficient drilling capital for locations to maintain flat production for the next 10 years, while generating free cashflow.

Aspenleaf, based in Calgary, Alberta, is a conventional oil and distillates producer formed in 2013. The company has grown to a 25,000 BOEPD oil producer through three add-on acquisitions: Arcan Resources, a waterflooding and enhanced oil recovery (EOR) company, acquired in 2015 for a reported \$300 million deal value; NEP Canada (Newtown Energy Partners), a LeDuc, Canada, oil producer formerly backed by Kayne Anderson Capital, acquired in 2018; and Huron Resources, acquired in 2020 and active in the Montney formation of western Alberta.

ARC Financial first invested in Aspenleaf with prior investor the Ontario Teachers' Pension Plan in 2014, with a \$365 million line of equity.

More to come

Other investors in the energy market who are active in secondaries include HarbourVest Equity Partners, Kline Hill Partners and LSV Advisors. Hedge funds, traditional private equity firms and family offices are all participating, Houlihan Lokey's Swain says.

Currently there's \$3 billion of CV funding activity being reported or announced in new deals for energy producers. But Swain reckons there's another \$10 billion to \$15 billion of deals going on between public pension funds and endowments that aren't being reported. The trend shows no sign of abating. ■

Follow the money

ILPA seeks LPAC vetoes and full disclosure over NAV loans. By Tom Auchterlonie

The Institutional Limited Partners Association is calling for more transparency around the usage of private equity NAV loans, and for GPs to get investor advisory committee approvals for them in certain situations.

ILPA included its recommendations in an anticipated guidance document, released in late July, that covers the fast-growing market for the fund-finance instruments.

The document aims to address LP concerns that some GPs may be using NAV loans to back weaker portfolio companies or to generate distributions not backed by portfolio company profits, as well as that some GPs may not be proactively disclosing their use of the loans.

Indeed, a senior ILPA representative acknowledged tensions about these issues in February when he spoke at a Fund Finance Association gathering.

ILPA's Neal Prunier, promoted to managing director for industry affairs in April, said at the event that the "vast majority" of the group's members don't support using NAV loans. He cited poor communication and distributions as two instances that rankled investors.

While the use of NAV loans purely for distributions has been a point of controversy, ILPA cites an FFA estimate showing that only 20 percent of NAV loans have gone towards this purpose. The remaining 80 percent are estimated to have gone towards portfolio support.

But ILPA said that distributions can create administrative hassles for LPs when they are callable. It also noted that interest payments are expenses borne by LPs, and acknowledged concern that GPs may use NAV loans to goose performance amid a difficult fundraising environment.

And cross-collateralization can pose the risk that struggling portcos propped up by the loans can ultimately undermine an entire fund's performance.

"Differentiated returns are a key reason why LPs invest in private equity, but a facility of excessive size, particularly if secured by a blended group of assets with varying upside potential, could compromise a key factor in alpha generation within a private equity strategy," the group said.

The guidance only covers NAV loans used in private equity funds. ILPA noted that it was avoiding discussion of their usage in vehicles for other asset classes.

An LPAC veto

ILPA calls for stepped-up LP oversight by requiring approvals from fund LPACs to use NAV loans when vehicles' limited partnership agreements are silent on their usage. And even when LPAs address NAV loans, ILPA recommends that GPs obtain LPAC consent if they plan to use the debt for distributions, or if there are conflicts of interest.

The organization said that the patchwork state of communications from GPs about their NAV loan use is



in part because they are being deployed in funds formed before the widespread use of the facilities.

"The resulting gap in transparency is in large part because older LPAs do not contain provisions that explicitly consider or contemplate NAV facilities," it noted.

In some egregious cases, LPs were never directly informed that NAV loans were being used.

"It is not uncommon for LPs to learn that their GPs are using a NAV-based facility through a review of distribution notices or other financial reporting, rather than from the GP directly," ILPA said.

And some sponsors that have requested LPAC permission haven't been specific enough as to what they have used, or plan to use, the loans for, the guidance said.

"These approval requests are often for a broad, general ability to use a facility during the life of the fund," the group said. "They are not waivers or requests to use a specific facility, ie,



once a GP has the waiver, they may use a NAV-based facility multiple times.”

ILPA recommends that GPs seeking LPAC approval for NAV loans disclose their rationales and the instruments’ characteristics, and that they discuss alternative liquidity options they’ve considered, such as investment realizations, continuation funds and portfolio company-level debt.

The group also advised sponsors to reveal interest rates, important covenants and maturity dates – insofar as agreements with their lenders permit them to do so. Borrowing cost details include whether the loans have floating or fixed rates and if payment-in-kind interest is allowed.

ILPA urges GPs to reveal the loans’ sizes, whether lenders can exercise cash sweeps, usage of special purpose vehicles and whether the debt is secured.

The group wants sponsors to explain to LPACs why borrowing to advance distributions is the best option for giving LPs cash. It said GPs should also explain why NAV loans for

distributions won’t increase risk beyond what LPs will tolerate and why the debt will maximize vehicles’ returns.

Additionally, the ILPA urges sponsors to tell investors whether their distributions are callable and disclose whether they face any other obligations tied to the loans.

More broadly, the group said that all LPs should be informed when their GP plans to use a NAV loan. It advises sponsors to inform them about rationale and why a NAV loan is better than alternatives.

Clearer fund docs

ILPA’s other recommendation is for LPAs to expressly cover using NAV loans – and the group offers model language for this purpose.

The ambiguity of legacy LPAs has created multiple problems for investors, ILPA noted. Aside from weak communication, some GPs have interpreted their LPAs’ vagueness as allowing them to exclude NAV loans from fund-level leverage limits when they are borrowed via special purpose vehicles.

The latter scenario makes it harder for LPs to gauge total indebtedness.

“As a result, LPs would not be able to know how much leverage the fund has taken out at the levels above the portfolio companies,” the group said.

To provide clarity moving forward, ILPA advised that LPAs should have clear definitions of NAV loans so that SPV-based borrowing is included in them. The group recommends that loan usage is capped at a percentage of fund commitments, while deferring to GPs and LPs on specific figures to set.

And LPAs should set out reporting expectations and “guardrails” around their usages.

The organization also recommends that LPs ask their GPs whether they interpret ambiguous LPAs as allowing NAV loans to be exempt from leverage limits if they are borrowed through SPVs. ■

“Older LPAs do not contain provisions that explicitly consider or contemplate NAV facilities”

ILPA

KEYNOTE INTERVIEW

Staying ahead



*Regulatory innovation is key to stakeholders remaining relevant, say **Elliot Refson**, head of funds, and **Philip Pirecki**, Americas lead, Jersey Finance*

Q How important is regulatory innovation as part of a jurisdiction's market positioning?

Elliot Refson: If you take the view that a jurisdiction is a business, and just like any other business it needs to stay ahead of its customers' needs, then it's clear that regulatory innovation is vital. Jersey's customers are investors, allocators and managers, so the jurisdiction's role is to keep up with market trends and international regulatory requirements, to position Jersey as the best place for those funds to operate from.

If you look at the tokenization of real-world assets, for example, Jersey first issued guidance relevant to that market, with its Initial Coin Offerings Guidance, back in 2018. Jersey's regulator is now in the process of updating that guidance to reflect prevailing

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market conditions and the latest innovations, which will become the Tokenization of Real Asset Guidance 2024. That updated document will position our jurisdiction, set out our stall and help us take that proposition to market.

Over the past couple of years, Jersey as a jurisdiction has won close to 350 new collateralized debt obligation and collateralized loan obligation structures as a result of weaknesses in the regulatory framework in Cayman, which, for a time, placed the jurisdiction on certain black and grey lists. This in turn forced European investors to move elsewhere. This clearly demonstrates that regulatory innovation is critical to a point where if you don't do it, you

are in danger of ceasing to be relevant. Another example like this was when the hedge fund managers that had flocked to Bermuda back in the day upped and moved overnight, as Cayman came along with a better product.

Philip Pirecki: The foundational question here is really why international financial centers exist and what is the use case for them. We need to provide regulatory services and the ecosystem to support these financial institutions, and regulatory innovation is about keeping step with what investors, allocators and managers need to be able to do their jobs.

Many of those things are driven by the onshore priorities, in terms of the onshore regulators and onshore tax authorities that are putting demands on transparency and on substance. If

you are not able to meet the needs of all those stakeholders, you are going to become irrelevant. Stakeholders want no surprises, minimum upheaval and innovation that continues to give them what they need.

Q How does regulatory innovation influence US manager decisions?

PP: What US managers want first and foremost is a solution that works and avoids uncertainty; they favor stability and predictability as the most important pieces. That doesn't mean that a jurisdiction should avoid change, but they want to be able to rely on a pragmatic regulator that is forward thinking, wrestling with issues early, listening and meeting their needs.

That is the same for the large, institutional scaled managers and the smaller more entrepreneurial funds that are still run by their founders. Both are looking for a jurisdiction that they know is going to be responsive to what they want to accomplish.

Q How has Jersey focused on innovation recently?

ER: There are plenty of examples. A few years ago, we introduced new Limited Liability Company (LLC) rules for US managers specifically and, as mentioned, we are just about to introduce an update to the guidance on the tokenization of real assets. That follows our work on a white paper, *The Tokenization of Real Assets*, alongside IFI Global last year, which highlighted how the tokenized assets market is predicted to become a more than \$16 trillion industry by 2030.

The Jersey Financial Services Commission has also recently published an update to the *Jersey Private Fund Guide*, which has proved to be really successful since it was introduced in 2017. The update includes a number of changes aimed at making the regime even more appealing to the funds industry, giving managers more flexibility to structure carried-interested and

co-investment vehicles, widening the definition of professional investors, and making family office and employee incentive arrangements easier.

Alongside tokenization, the retailization of funds and broadening the investor base is another big theme for jurisdictions like Jersey. One reason is that the retail market is around 50 percent of the \$295 trillion assets under management globally, but only some 16 percent of that is being invested into alternatives. That creates a massive opportunity for alternative asset managers to tap that market.

PP: The LLC rules are a great example of how Jersey is actively trying to respond to the needs of US managers. It is not an easy task to create new law, but Jersey actively brings together industry, government and the regulator to address pain points and make things easier. A lot of innovation can be done quite quickly if there is a spirit of collaboration and pragmatism.

Jersey's focus on innovation is also about much more than just regulation. Jersey saw this some time ago and recognized the need for a 21st-century infrastructure in order to be able to service our financial services industry as it advanced. As a result, fiber was run to every dwelling on the island and Jersey's broadband speed is now one of the fastest in the world (*Worldwide Broadband Speed League 2024*).

Q How do you balance innovation and progress with stability and familiarity?

ER: Stability and certainty are what underpins the business of a jurisdiction, and it is innovation that drives it forward. If you didn't innovate, you wouldn't be servicing the needs of your clients, the managers and investors. Likewise, if you didn't have stability, you wouldn't have those clients coming to your jurisdiction in the first place.

Twenty years ago, Jersey was maybe viewed as an expensive and heavily

“A lot of innovation can be done quite quickly”

PHILIP PIRECKI
Jersey Finance

regulated place to do business. Since then, the world has caught up with the decisions we made some time ago, with our innovation building on that business case through a process of iteration and evolution, not revolution.

PP: Stability, certainty and predictability mean different things to different people. If you have stable and predictable regulations that never change, then you will not be making progress and keeping up with the market. The key is giving stakeholders the confidence that your jurisdiction is actively engaged in forward planning, making sure it evolves and grows so that it remains a place where businesses want to operate.

Q How can a jurisdiction successfully link innovation with agility?

PP: It comes down to a number of things, with a key one being the mindset to underpin the creation of institutions that facilitate innovation and agility. Collaboration has to take place intentionally, and that requires institutions like Digital Jersey, Jersey Finance and the Jersey Funds Association, which all work with government, industry and regulators.

There has to be that intention that by working together, we will always be wrestling with the issues, really considering what needs to evolve, and then clearly articulating the reasons behind our decision-making. That is how you solve clients' problems. ■

Legal advisers on the future of funds regulation

*The SEC's recently vacated Private Funds Rules have moved the needle on market practice regardless of their withdrawal – and there is no going back, writes **Claire Coe Smith***

With the US Securities and Exchange Commission's controversial Private Funds Rules having been vacated by a Federal Appeals Court in early June, the question of what lies ahead for private funds regulation and where firms should be placing their resources is one that is echoing across the industry.

While the SEC has routes to appeal, few lawyers see a path to resuscitation for the proposed reforms. Whether those reforms will live on through market practice and LP pressure, however, remains to be seen.

Lawyers across the market say that while general uncertainty over the specifics of any future regulation will continue to linger for months to come, a best-practice method is starting to develop.

“Our advice to our clients is generally not to take significant additional steps preparing for the rules, in light of the vacatur,” says Kevin Bettsteller, a partner in the investment funds group at Gibson, Dunn & Crutcher.

“Sponsors should be prepared for an ever-increasing focus on a lot of the same topics that the rules were trying to address, in the examination process and

in enforcement investigations. That is how the SEC often seeks to informally impose new requirements on advisers, and in that respect many aspects of the rules could be revisited.”

It was a package of measures that the SEC had itself estimated would cost the industry more than \$5 billion to implement. Perhaps the biggest relief will be the demise of the Quarterly Statement Rule, requiring funds to detail their performance, fees and expenses to investors every three months. Rules attempting to address preferential treatment in side letters through disclosure and consent requirements would also have required significant work on the part of fund managers.

But with a lot of work already done, funds should not be too quick to abandon their efforts.

Jefferey LeMaster, a partner in the investment management group at Clifford Chance, says: “One thing the SEC was potentially thinking about when they brought forward these rules was that if they got far enough with implementation, even if the rules didn't end up standing up to legal challenge, they may have pushed the market so much that market practice would have moved.

“Also, irrespective of market practice considerations, and notwithstanding

that the technical requirements of the rules have been struck down, the rules are effectively a risk-alerter of the things the SEC will be focusing on going forward.”

There is also the investor community to consider, with the Institutional Limited Partners Association (ILPA) having served as a basis for some of the shape of the SEC proposals in the first place. When the Fifth Circuit threw out the rules, the investor advocacy group issued a statement criticizing the decision as failing to “acknowledge the SEC's longstanding authority to protect private market investors” and uphold mandated standards on information related to performance and fees and expenses charged to investors.

“The ILPA template helped inform what the SEC adopted on the quarterly statement requirement,” says Bettsteller, “and they are working on an update to that template. It seems clear that LPs will still push to have sponsors adopt a more detailed reporting standard and one that is harmonized across funds.

“A lot of CFOs have already spent a great deal of time doing the leg work to get ready to report, and these efforts may be redirected to comply with the enhanced reporting standards requested by investors, depending on the

particular circumstances of the sponsor and their fundraise.”

He adds that he is not currently anticipating any significant changes to current practices when it comes to side letters, “which rely on most-favored nation clauses, disclosures of material conflicts under the existing Advisers Act rules and a recognition that any preferential treatment should be mindful of any harm that might potentially be caused to other investors.”

‘Tip of the iceberg’

Robert Sutton, a partner in the private funds group at Proskauer, says funds need to be prepared for a crackdown on enforcement around the practices covered by the rules. “The Fifth Circuit made a fairly pointed observation that the SEC had presented little to no evidence of actual adviser misconduct in those areas, which might now result in increased efforts to bring more cases. Private fund advisers should also prepare for elements of these now-vacated rules to appear in side letter requests from investors, many of whom found the Fifth Circuit’s ruling to be very disappointing.”

Sutton points out that this is far from a let-off for the industry. “It is

worth bearing in mind that these rules were just the tip of the iceberg in terms of recent SEC rulemaking that affects private fund advisers.

“Since 2021, the SEC has adopted and proposed over 20 rules that impact private fund advisers directly or indirectly, with about half applying to private fund advisers themselves and the other half applying to brokers and public issuers and therefore indirectly affecting advisers whose funds participate in US public markets. The cumulative burden on private fund advisers is still enormous.”

Looking forward, the demise of these rules now raises the prospect of other planned new regulations going the same way. The SEC’s proposed safeguarding rules, outsourcing rules and predictive data analytics rules all rely upon either the section of the Dodd-Frank Act that the court ruled applies only to retail customers, or the anti-fraud provisions of the Advisers Act, under which the SEC failed to articulate any rational connection between fraud and the rule, the Federal Appeals Court panel said in June.

Bettsteller says that such long-expected rules could now be proposed again. “The safeguarding rules in

particular would represent another sea change and the industry is very concerned that they are difficult to comply with. There is a lot going on and we are all waiting to see what happens next.”

LeMaster points out the additional challenges coming later in the year with the US presidential election. “That adds an extra layer of complexity, as it is possible we are looking at a different commission following that election. If it is a Democratic win, then the commission may stay very similar to what we are looking at here. Even in that context, I still don’t think they bring back the rules, though [SEC chair Gary] Gensler has made it clear that rule-making remains a top priority.”

He adds, however, that “if it’s a Republican win, the commission will change and could look very different.

“Generally, the SEC has not been quite as heavy-handed during Republican administrations when it comes to rule-making and enforcement, so we may see the focus swing back towards the capital formation portion of the SEC’s mandate.”

Sutton says legal advisers have learned some lessons from the experiences with the Private Funds Rules. “I think legal advisers have learned, if they didn’t know already, how important it is to have a plan and to be methodical, to map out what resources will be needed and which stakeholders will need to be involved.

“Above all, the last 18 months have demonstrated how critical it is for everyone to be working together as a team, rowing in the same direction, in seeking to manage all of that regulatory compliance and keep firm risk at an acceptable level,” he adds.

GPs may not be so keen to move mountains as soon as the SEC announces its next set of rule changes, now that they have seen the potential for proposals to fall by the wayside. But as a sign of examination and enforcement priorities, funds can hardly afford to overlook what the commission has to say. ■

“Sponsors should be prepared for an ever-increasing focus on a lot of the same topics”

KEVIN BETTSTELLER
Gibson, Dunn & Crutcher

Earning new wings

*A chance meeting led Jeff Aiello out of the Air Force and into a career in private equity, writes **Obey Martin Manayiti***

In 2007, Jeff Aiello was serving as a lieutenant in the US Air Force with little knowledge of the world of finance when a random meeting inspired him to change his career path.

“I had a layover in Chicago O’Hare Airport,” Aiello recalls. “I was sitting at a bar, and I had struck up a conversation with a guy who worked for an investment bank. He told me what he did, and he explained to me how investment banking was more about building relationships and advising people than it was about trading stocks, which is all I thought of when it came to Wall Street.

“I knew nothing about the finance world. The way he described it, it sounded really appealing. I started reaching out to other veterans in my network who worked in investment banking, and one of them said ‘banking is great, but private equity is really where the fun is.’”

With that, Aiello, who eventually achieved the rank of captain in the Air Force, started his journey in private equity.

Emerging manager

First, he went to work for Audax as a pre-MBA associate. A friend of a friend introduced him to a recruiter who was

looking for a junior military officer to add to Audax’s private equity class. “That changed my life,” he says.

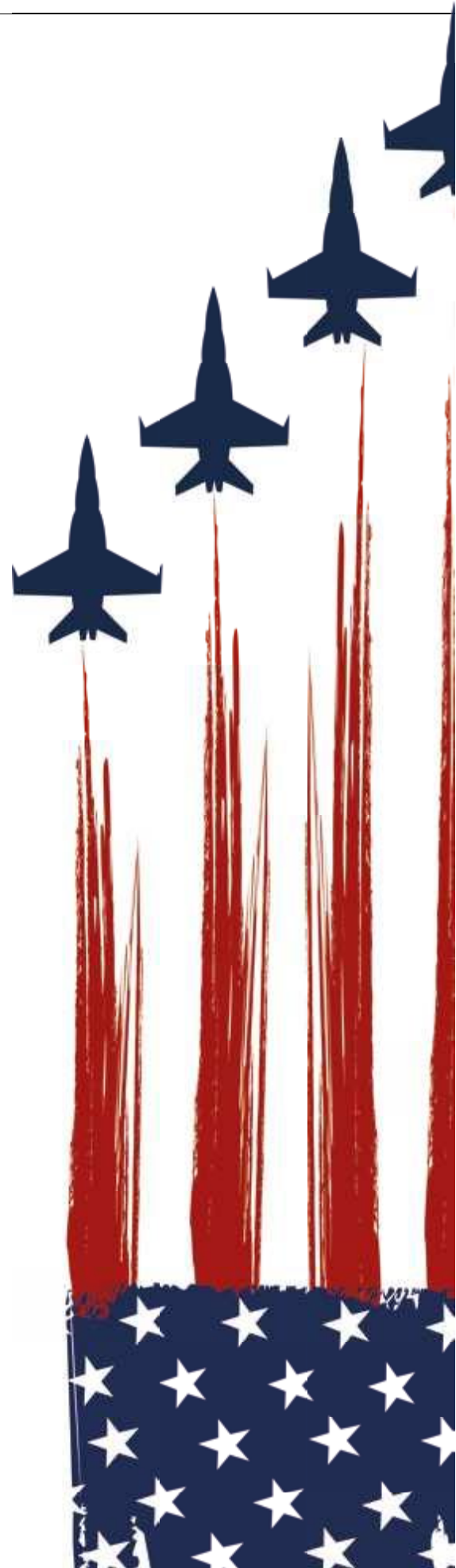
After 13 years in the private equity world, first at Audax and then Thompson Street Capital Partners, Aiello co-founded Agellus Capital, a Clayton, Missouri-headquartered firm earlier this year. Within five months, the firm raised its inaugural \$400 million fund, surpassing its \$350 million target.

Raising a first fund, especially in this current macro-economic environment isn’t an easy feat. LPs are closing their wallets because most GPs are having a tough time making exits that will allow them to return cash to the LPs.

“When we first went into this, we thought it was going to be a slog. We targeted \$350 million for the fund size, but we wouldn’t have been surprised if we raised less than that,” Aiello explains.

“We thought it was going to be an 18-month fundraiser with a lot of introductory phone calls and no follow-ups. The quality of the blue chip LPs that came in first ended up creating some buzz and gave us some momentum leading to a much faster raise.”

The firm expects to debut on the dealmaking scene later this year. The firm targets companies between \$2



million and \$20 million of EBITDA, ideally platform transactions where Allegus can write \$40 million to \$60 million equity checks, and then could scale that equity investment to \$75 million to \$100 million with add-on acquisitions. “We are going to be relatively concentrated in our portfolio,” Aiello says.

Essential services

Agellus says it will invest in non-discretionary services businesses across the US and Canada. The firm’s strategy is to combine organic and buy-and-build strategies to scale companies within large, fragmented markets.

That thesis has its roots in both founders’ prior experience. During his time at Thompson Street, Aiello gained experience in industries such as commercial fire safety inspection, test and repair services, residential plumbing, HVAC services, pest control services, both commercial and residential deals, among others.

Aiello’s co-founder, Beau Thomas, who is a former managing director at Audax, is equally experienced in these sectors.

“Beau and I have had very similar career paths over the last 10 years,” he says. “Like me, he focused on essential services – primarily in transportation and logistics and business services. When we looked at that, we thought, well, we have a very good story to tell.”

While in business school at Wharton, Aiello tried his hand at an independent sponsor deal. “During my search, I found a fairly sizable founder/family-owned commercial landscaping business in the southeast,” he says.

At the end of the summer of 2015, right around the same time he closed his independent sponsor deal, Thompson Street offered Aiello a full-time job as a vice-president. In his spare time, he would work on his independent sponsor deal, up to its exit.

“While I loved being entrepreneurial and building something,” he says, “I also really liked the team at Thompson



“I knew nothing about the finance world”

JEFF AIELLO
Agellus Capital

Street, and felt it was a great career opportunity to develop professionally at a growing firm in a great city like St Louis. I chose to take the offer.”

But with time, Aiello wanted more. “When I came to Thompson Street, I didn’t know if I was ever going to leave, but over the years, I just had a growing desire to be entrepreneurial again and build something. I’d be turning 40 soon and realized that if I waited much longer, I might never do it.” With that, he teamed up with Thomas to form Agellus.

The firm will seek to do five to seven platform investments.

Aiello thinks that forging alliances is a key part in the life of a dealmaker.

“The thing that I’m most proud of in the last 10 years in private equity is not the returns generated, but the relationships that I’ve built with talented, great founders and CEOs,” he says. “When I left to go start my own firm, I had a very long list of references and people who were willing to step up and advocate for me to both investors, executives, and sellers.” ■

Private equity is the top asset class that family offices want to allocate capital to this year, according to the latest research from Deloitte.

Family offices plan to increase their private equity investments more than those of any other asset class in 2024: 29 percent of offices are targeting an increase in private equity funds, while 27 percent are targeting direct private investments and 25 percent private debt/direct lending.

The study, *2024 Top 10 Family Office Trends*, gathered responses from 354 single-family offices globally between September and December 2023.

It is the first year in which private equity surpassed equities as the number one asset class that family offices invest in, Rebecca Gooch, global head of insights for Deloitte Private, tells affiliate title *Private Equity International*.

“Private equity has always been the darling of the asset classes among family offices,” says Gooch. “But what we found is that this is being driven in large part by family offices pushing further into direct investments. [There’s] this explosion in the number of family offices around the world, and a lot of them are focusing on direct deals.”

Active changes

On appetite for more directs, the shift comes from “a rise in direct deal activity among family offices in North America and Asia-Pacific,” the report notes.

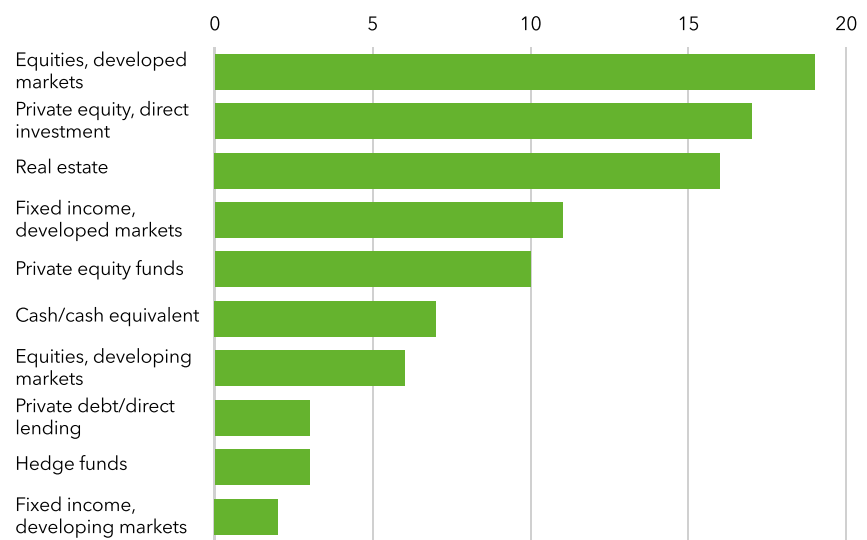
The average proportion of capital that family offices dedicated to direct deals rose from 12 percent to 17 percent in North America and from 9 percent to 12 percent in Asia-Pacific between 2021 and 2023.

“In addition, family offices are shifting more away from this watch-and-wait approach that we’ve had through these two years, [and towards] actively

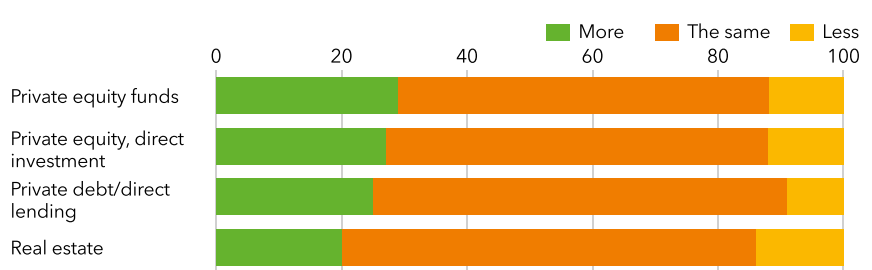
Family fortunes

Research from Deloitte finds that increased allocation to private equity and improved succession planning are top priorities for family offices this year, writes Carmela Mendoza

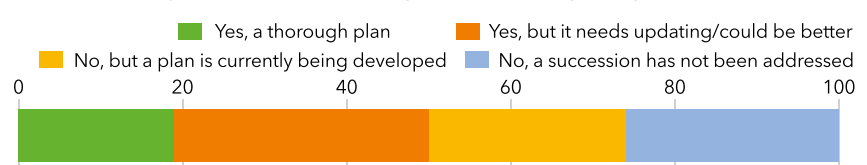
Family offices’ investment portfolio by asset class, Q3-Q4 2023 (%)



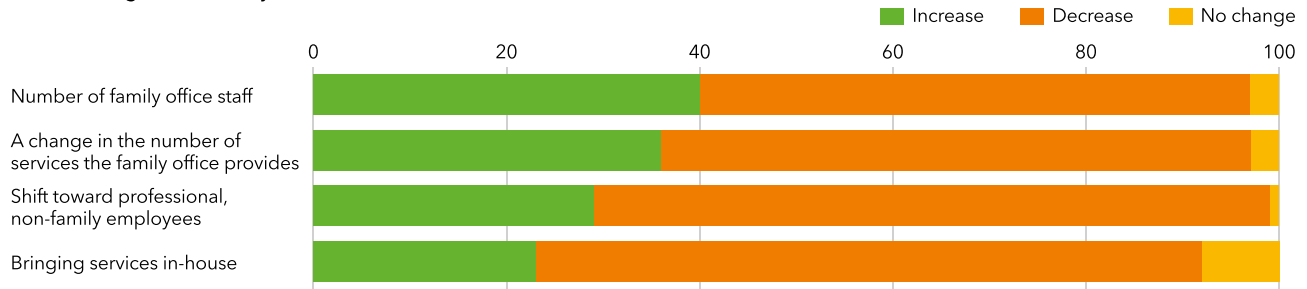
Family offices’ intentions to allocate more, the same or less to these asset classes in 2024 (%)



Whether the family office executive leadership has a succession plan in place (%)



Planned changes to the family office in 2024 (%)



Source: Deloitte

looking at reducing their cash exposure and focusing more on opportunistic deals,” Gooch says. “They’re long-term investors with patient capital and cash reserves. When markets fluctuate, they look for those opportunistic deals with lower valuations.”

Mark Kennedy, a director in the M&A team at Deloitte, adds that the consultancy is seeing “a significant increase in demand from family offices, in particular around M&A processes.”

“There’s an awareness of the differentiation and competitive advantage of their offering – patient capital and more flexibility about their hold periods and the structures they take, whether it’s minority or majority stakes,” Kennedy says. “They can co-invest; they can put debt instruments into transactions as well as equity; they can also provide follow-on funding and invest with lower returns hurdles.”

Path to succession

Succession planning is also a top priority this year, the report found. Four in 10 families will undergo a generational succession within the next 10 years, yet half of family offices surveyed lack succession plans for their leadership team.

Among the cohort of families undergoing succession, newer wealth holders are twice as likely as legacy families to lack a plan (43 percent versus 22 percent, respectively).

“Private equity has always been the darling of the asset classes among family offices”

REBECCA GOOCH
Deloitte Private



“As a result, nearly one-quarter of respondents globally (24 percent) rank their/the family’s unpreparedness for succession as a top risk to their family office,” according to the report.

Interestingly, family offices in North America are far more concerned about succession (40 percent) compared with family offices in Asia-Pacific (21 percent) and Europe (12 percent).

“It is really imperative that families focus on succession planning because wealth is very, very hard earned, but can be easily lost – particularly when next generations are not adequately prepared,” Gooch says.

“The focus this year for family offices is to gear up the next generation by educating them and by getting succession plans in place.”

Additionally, the report found that four in 10 family offices are looking to staff up this year, “with 29 percent shifting towards more professional (non-family) talent, a sign of rising professionalization.”

About 35 percent of family office heads are non-family professionals; this is expected to jump to 49 percent post-succession.

The number one sector that family offices are recruiting from is financial services (64 percent), followed by accounting firms (44 percent), consulting firms (25 percent) and other family offices (22 percent). A growing number of family offices also expect to increase their reliance on third-party outsourcing services. ■

Curtain call



Off-duty

Wafra's Sumana Setty on racket sports, French jazz and 'futureproofing' private equity.

By *Kirk Falconer*

Sumana Setty, general counsel at Wafra, has made a career of providing legal advice to the alternatives industry. Setty has been partner in Kirkland & Ellis's investment funds group, head of legal to Napier Park Global Capital's private equity business and general counsel and CCO at Galle Global Macro Partners. In 2010, Setty co-founded Commit2Change, a non-profit focused on the 130 million girls globally without access to education. C2C has supported more than 8,500 vulnerable young women, 99 percent of whom enrolled in secondary school or college. Private equity stands to gain from backing organizations like C2C, Setty says, as a way of "futureproofing" the asset class.

Where is your hometown?

Flint, Michigan.

If not in PE, what job would you like to have?

A dream job for me would be to be the CEO of Global Citizen. I really admire how the organization works to eradicate poverty by developing out-of-the-box ideas through a global community of change agents.

How do you relax when you're not working?

I love racket sports. Whether it is tennis or paddle, you can find me on the court.

What book are you reading right now?

Age of Revolutions, by Fareed Zakaria. It's a fascinating read focused on how eras have shaped and shattered humanity.

What is your favorite music genre?

I love French jazz.

What is your favorite sanctuary?

Paris – it is simply magical!

What was your most rewarding moment?

Co-founding Commit2Change, a non-profit dedicated to educating and empowering orphaned and at-risk girls. C2C is not just about helping a child who has endured severe trauma to envision her potential, but also about creating change in a systematic and profound way. At a macro level, the education of orphaned girls can foster a more skilled and diverse workforce. Private equity firms stand to gain from investing in such education programs, which nurture future talent and could lead to a more robust and inclusive economy. These girls, who we've helped become founders, colleagues, investors and advisers, bring unique perspectives and ideas to the table. On a personal level, witnessing a girl rise and uplift others around her is one of the most rewarding experiences of my life.

What word or phrase best describes you?

Engaging. ■

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The background of the entire page is a photograph of two women in a professional setting, likely a meeting or conference. They are seated and engaged in conversation. The woman on the left is smiling and looking towards the woman on the right. The woman on the right is holding a coffee cup. The image is overlaid with a semi-transparent dark gradient that allows the text to be legible.

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