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An industry better capitalised than ever

With almost $2trn raised between them in the last five years, this year’s PEI 300 are armed and ready for the post-coronavirus rebuild, writes Isobel Markham

Annual fundraising figures go some way towards painting a picture of just how much capital is in the hands of private equity managers, but the ebbs and flows of the fundraising cycle often leave that picture incomplete.

Lest there be any doubt as to how much of a boom period fundraising has been through over the last few years, this year’s PEI 300 lays it out for you.

On top once again is Blackstone, with a five-year fundraising total of $96 billion, 16 percent higher than its total last year and almost $35 billion more than second-place Carlyle Group. It is mega-funds ahead of the competition.

And Blackstone isn’t the only firm to up the ante. The top 10 is around $30 billion larger than last year’s, the top 50 has broken the $1 trillion mark for the first time, and the entire PEI 300 has amassed $1.988 trillion. That’s the same as Italy’s GDP. Firms now need at least $1.4 billion to make it into the ranking.

Private equity, then, is well-capitalised as we move into and through the economic and social trauma caused by the covid-19 pandemic. At such a time as this, being private equity owned is a blessing, Blackstone’s global head of private equity Joe Baratta tells us.

“I do believe, 100 percent, that in a crisis it’s better to be backed by a private equity firm, particularly and to the extent that it is able and prepared to support these companies, which of course we are,” he says.

“The businesses that we own at Blackstone that are directly affected by the pandemic, [such as] Merlin, which is the second largest visitor attraction company in the world next to Disney, we’ll be very supportive of. We’re helping it raise capital where it can, we’re continuing to invest in long-term capital projects like the Legoland theme parks that will be opened hopefully next year in New York and in Korea the following year. We’re continuing to support investment in these

The top 10

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companies that we believe have good long-term prospects.”

Private equity has an opportunity here to play a major role in rebuilding economies as governments and industries grapple with the fallout from the pandemic. How it responds to that opportunity will have a major impact on the industry in years to come. As Emily Brown, partner at law firm Schulte Roth & Zabel and an entrant on this year’s Private Equity International Future 40, put it back in April: “Ten years from now I would like to be looking back and saying that private equity was not only part of the solution to the crisis we are entering at the moment, but that it was seen to be a vital part of the solution.”

Baratta says the private equity ownership model was proven in the post-global financial crisis period, and it will be again through this period.

 “[The capital] which is in the hands of private equity fund managers I think will be beneficial to the economy because we will provide capital for businesses to make long-term investments in their growth, in their ability to operate and employ more people, and to expand their productive capacity,” Baratta says.

“In the short run, private equity has shown to be an important provider of capital to companies that have short-term dislocations in their businesses, either because of a direct effect from covid-19 or because they’ve expanded too quickly. To fix balance sheets and to allow them to continue to operate and grow, private equity has filled an important need in the capital market.”

The vast majority of private equity fund managers want to own businesses that will be around for the long haul, and invest in companies that can grow, he says. This means a greater emphasis on business building rather than cost cutting.

“It’s not all super high growth technology but it’s businesses that can grow at or above GDP that will be more valuable after our investment in them than before we found them. That requires investing for growth,” Baratta says.

It also means being slower than others to pull the trigger on employment reductions and furloughs.

“We’ve been very careful about how we manage employment levels and the benefits that we provide,” he adds. “We’re seeking to make sure that we’re on the generous side and not leading sectors in employment reductions compared to public company peers. We want to preserve the ability of these businesses to rebound and to operate when the economy reopens.”

Private equity is already a significant part of global economies – in the US private equity firms hold investments in around 35,000 American businesses that employ 8.8 million people, according to the American Investment Council. This year’s ranking shows it’s ready to take an even larger share – and if it is indeed a superior ownership model, employees and society should be the better for it. ■

Methodology

How the ranking is determined

The 2020 PEI 300 ranking is based on the amount of private equity direct investment capital raised by firms between 1 January 2015 and 1 April 2020.

Definitions

Private equity
For purposes of the PEI 300, the definition of private equity is capital raised for a dedicated programme of investing directly into businesses. This includes equity capital for diversified private equity, buyouts, growth equity, venture capital and turnaround or control-oriented distressed investment capital.

Capital raised
This means capital definitively committed to a private equity direct investment programme. In the case of a fundraising, it means the fund has had a final or official interim close after 1 January 2015. We count the full amount of a fund if it has a close after this date, and we count the full amount of an interim close that has occurred recently, even if no official announcement has been made. We also count capital raised through co-investment vehicles.

What does NOT count as private equity?

Funds of funds, secondaries, real estate, infrastructure, hedge funds, debt, mezzanine and PIPEs.

The PEI 300 is not a performance ranking, nor does it constitute investment recommendations.

For a full methodology, email PEI’s head of fund manager research, Daniel Humphrey Rodriguez (daniel.r@peimedia.com).
Top 10: The ebbs and flows

The nature of the PEI 300 - based on a five-year fundraising total - means it takes a while for tough fundraising periods, such as the one immediately following the global financial crisis, to show up in the rankings. Here’s how the Top 10 have fared since 2010.

Capital raised: Column width represents total capital raised by top 10 firms for the five years up to that year ($bn)
Cover story

Capital raised: Column width represents total capital raised by top 10 firms for the five years up to that year ($bn).

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Creating growth through diversity

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700+ Attendees

100+ Institutional Investors

300+ Fund and Asset Management Firms

An incredibly inspirational day that would be a real benefit to any woman or man, in the industry to attend. Many thanks!

Julie Dunne
Investment Operations Manager
The Church of England Pensions Board

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The decade that changed private equity

Over the last 10 years the industry has transformed from the pre-GFC leveraged buyout model to one based on building stronger business. What are the elements that went into that transformation?

On its first quarter earnings call in April, Scott Nuttall, the co-president and co-chief operating officer at KKR (3) told the story of how the firm built itself up over the last decade from a private equity firm with a young US-centric credit business to an asset manager with 24 business lines to allow it to have a more powerful offensive strategy when the next crisis hit.

“The last crisis was critical developmentally for us. We made some great investments, we made large and important moves for the firm strategically, and it was an inflection point that drove us to meaningfully expand our business in the years post-crisis.”

KKR isn’t the only firm that’s evolved during this time. In the last decade the private equity industry has transformed from a pure financial engineering play to a model focused on building better businesses that provides tailored capital.

Over the next 12 pages, along with the rest of the PEI 300 ranking, we lay out six of the biggest industry-wide changes that have taken place over the last decade to bring the private equity industry to where it is today: the uptick in co-investments; the shift from financial engineering to operational value creation; the growing importance of ESG; the rise of private credit funds; the move from generalist investment strategies to specialist focuses; and the maturation of the secondaries market.

Lessons from the GFC

As world economies plunge deeper into negative territory brought about by the coronavirus pandemic, it’s worth thinking about what the industry learned from the last crisis.

Nuttall said KKR is “viewing this crisis as providing similar opportunities” to the last one in terms of firm growth, and during times like this, KKR can use its balance sheet to be “aggressive”, including for new investments, strategic acquisitions and for buying back its own stock.

The balance sheet strength of the largest firms in the private equity business – particularly the listed ones – is well known, and certainly positions them well for the sort of explosive growth Nuttall was talking about.

But thanks to the rise in GP stakes investments there are firms further down the PEI 300 with balance sheet firepower. Michael Rees, head of Dyal Capital Partners – a unit of Neuberger Berman (6) – told sister title Buyouts in May that minority capital helps position firms for upside opportunities in a pandemic-spurred slowdown.

“Raising a sizeable amount of permanent capital eliminates liquidity issues for private equity firms,” Rees said.

If the next decade is anything like the last, in 2030 we could be looking at a very different industry.
More investors are progressing from syndicated co-investing to co-underwriting as they seek greater control over their private equity portfolios, writes Alex Lynn

Co-underwriting deals historically the preserve of the most sophisticated investors, but over the past decade more have realised the mutual benefits of becoming a more hands-on partner to their GPs.

Appetites for co-investments have soared as LPs look to increase their allocation to exciting sectors, deepen relationships with GPs and secure more appealing economics. Doing so has also given LPs greater control over their portfolios as the industry shifts from the one-size-fits-all model of old.

The true scale is hard to gauge, but Triago puts “shadow capital” – including co-investment, separate accounts and directs – at $206 billion in 2019, of which approximately $66 billion was for co-investing.

“It’s a marked difference from 10 years ago,” Sweta Chattopadhyay, head of Bfinance’s private equity advisory and an alum of Universities Superannuation Scheme, RPMI Railpen and Adveq, tells Private Equity International.

“Over the past five years, there’s still a pool of investors that are reliant on GPs for syndicated co-investments, but more and more it’s moving towards co-underwriting. Part of that is wanting to have more understanding earlier of transaction dynamics and wanting to be more involved with the portfolio companies.”

Teacher Retirement System of Texas said last year it would begin to pursue co-underwriting opportunities in lieu of syndicated deals as the latter had become commoditised.

“Co-underwriters eat till they are full, and syndicators eat the leftovers,” managing director for private equity Neil Randall said at the time, noting the process is more labour-intensive and comes with inherent uncertainty.

Co-underwriting can benefit LP and GP alike. The former gets a head start on attractive dealflow, a deeper understanding of a GP’s deal process and expertise in a preferred sector; the latter can share the burden of due diligence and potential broken deal costs.

London-headquartered BC Partners has provided approximately €9 billion of co-investments across 31 portfolio companies for 89 different LPs since 1994, per its website. Of this, €3.8 billion was co-underwritten or co-sponsored by 12 unique investors.

“As we’ve seasoned our co-investment programme, we’ve naturally found different thematic areas we want to get a little bit smarter on, so if a GP can help us with that effort and direct relevant dealflow in that area, they become very important,” Yup Kim, senior portfolio manager at the $62 billion institution, notes.

“These GPs aren’t always top-decile or oversubscribed, but they’re very committed to a partnership approach and these have become some of our most rewarding relationships.”
BlackRock

17 ▲
New York

The world’s largest asset manager shot up the ranking, indicative of its push to becoming a force in the world of alternatives.

In Q1 2020 alone BlackRock saw $7 billion of net inflows and capital commitments for alternatives, PEI reported. Between Q1 2019 and Q1 2020, alternatives grew from 2.5 percent to 3.1 percent of the firm’s total assets under management.

“In our illiquid alternatives space, we are actually having deeper, longer, broader dialogues [with investors] than ever before,” said chairman and chief executive Larry Fink on the firm’s first-quarter results call.

In the past five years BlackRock has also held final closes on two Private Opportunities Funds for direct co-investment deals on a global basis, per PEI data. The firm is also known to run several big customised accounts. In March BlackRock hit the two-thirds mark on fundraising for its debut secondaries fund, collecting around $1 billion to invest in LP stakes and GP-led deals.

As of January, BlackRock’s Long Term Private Capital Vehicle had raised $3.85 billion, with the aim of raising $12 billion overall. The fund takes long-duration positions in private companies with less leverage and a lower-than-average fee base. Speaking to PEI in March Dag Skattum, who leads the fund’s Europe business, said: “Long-term and lower-leverage might not be differentiators to everyone; but among family- and private-owned companies, we find the proposition to be particularly compelling, helping deliver unique sourcing opportunities for our investors.”
The global financial meltdown was a major catalyst in private equity’s move away from financial engineering. The covid-19 pandemic will show how real this move has been, writes Rod James

Financial engineering will ever be integral to the private equity model; it’s called leveraged buy-out for a reason. Still, the shift in general partners’ focus towards creating value through operational improvement has been one of the most striking trends of the past 10 years.

Every one of the 25 largest private equity firms in the world has an operating group focused on supporting value creation in their portfolios, according to McKinsey.

These teams are also getting more hands on. In 2015, the consultancy found operating teams spent almost a third of their time “monitoring and reporting” company performance. In 2018 this dropped to 19 percent, with “driving measurable performance improvement” coming to represent more than 50 percent of time spent.

“Operating teams are much more integrated into the investment team even pre-acquisition, and in charge of the execution of the investment strategy as well as monitoring of the day-to-day operations at their portfolio companies,” says Stewart Kohl, co-CEO of mid-market buy-and-build specialists The Riverside Company (137). “[This] as opposed to being brought in to address a certain issue on an episodic basis – often after the horse as left the barn.”

Don’t waste a good crisis

It’s prescient that a key driver of this trend was the global financial crisis, when it became clear GPs would have to intervene, financially and operationally, to save businesses under stress.

With hindsight, it seems that not only did this intervention save companies but helped them thrive. McKinsey found that GPs with operating groups achieved internal rates of return roughly 500 basis points higher than those without on their 2009-13-vintage funds, a phenomenon unapparent in relation to other vintages.

A 2018 paper entitled Private Equity and Financial Fragility During the Crisis found sponsors’ willingness to get stuck in not only helped companies survive but also allowed them to increase market share versus non-PE-backed peers.

Today is different in several ways. Though extensive investment means GPs are better resourced to help than a decade ago, the unpredictability of the virus makes it harder for GPs to provide strategic guidance to their businesses, the paper’s co-author Josh Lerner, a Harvard University professor, tells Private Equity International.

The growth in operational resources has also been matched by an expansion in the number of deals that firms are doing, notes Daniel Winther, head of private equity and infrastructure at Skandia Asset Management, which has around €4 billion in PE assets and favours GPs with a focus on operational improvement.

“What I worry is that they have maxed out,” he says. “When a crisis hits like this one, where every company is getting hurt, these resources will help but it might not be enough.”

A Northern European pension fund manager says he takes comfort in how embedded operating partners are in their portfolio companies. They understand the business intimately and their compensation is closely aligned with that of management. Most were hired, however, during a decade-long bull run. They clearly understand growth but what about distress?

“We’ll soon find out,” he says.
**KPS Capital Partners**

69 ★

**New York**

**The manufacturing and industrial specialist is back in the ranking with a bang having dropped out of contention last year.**

It took KPS less than four weeks to pull in $7 billion across two funds last year. In fact, throughout the firm’s history it has turned down more capital than it has closed on, despite having carry set at 30 percent – a testament to its impressive performance record.

Founder Mike Psaros describes the firm’s strategy as “based on seeing value where others do not”.

“That is key: buying right and then making businesses better. Our investment strategy fundamentally transforms companies, not balance sheets.”

As the world grapples with the pandemic, a strong focus on operational improvements – and KPS’s ability to make all-equity deals, as it did successfully following the GFC – puts the firm in a good position when it comes to deploying the $6 billion KPS Special Situations Fund V.

Psaros says even though the firm’s strategy and focus will remain the same, it will likely benefit from lower valuations brought about by market uncertainty, the general lack of available financing for new acquisitions, and the first opportunities in a long time to acquire assets through bankruptcies and financial restructurings.

“I would fully expect during the course of this downturn that we will acquire companies that would have otherwise gone out of business, thereby preserving them as a going concern, as well as employers of large groups of people.”

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Private equity investors increasingly want to show they are a force for good. Before the 2008 global financial crisis there was little focus in the industry on environmental, social and governance issues, but the requirements for transparency and accountability across investment programmes have proliferated in the aftermath.

In 2009, the American Investment Council (then the Private Equity Council) issued its first guidelines for responsible investment, covering issues such as health, safety and labour. Invest Europe (then the European Private Equity and Venture Capital Association) also introduced ESG language into its handbook for the first time.

The pressure from LPs to invest responsibly is the primary driver. First came demands from large European institutions, and over the last decade others have followed suit.

Demographic change is another. Next-generation investors are contributing to a more rapid adoption of sustainable investing, according to the UBS/Campden Wealth Global Family Office Report 2019. One in three family offices surveyed engages in sustainable investing and a quarter in impact investing. The average 19 percent portfolio share dedicated to sustainable investing is expected to increase to 32 percent within the next five years.

The launch of the UN-supported Principles for Responsible Investment in 2006 allowed many efforts to coalesce under a comprehensive framework, says Suzanne Tavill, global head of responsible investing at StepStone. As a result, the promulgation of guidelines and best practices has been streamlined, which has made it easier for GPs and LPs to adopt ESG principles.

Signatories to the PRI have grown to over 3,000, with asset owners making up nearly 20 percent.

‘Cover your backside’

Today, LPs and GPs alike are increasingly recognising ESG issues as material factors in the investment process, Tavill says. “Having LPs that are focused on these issues is a helpful driver to this adoption but, even so, GPs are recognising that climate change will affect assets during the hold period; that diverse management teams lead to better outcomes; and that supply chains need to be clean and certified to maximise exit value.”

How PE firms incorporate ESG is still highly variable, according to a report from Bain & Co. Some firms are taking the “cover your backside” approach by ensuring their holdings comply with existing regulations, while others embrace ESG principles across the investment value chain. At the far end of the spectrum are impact investors, who invest with a “double bottom line” of both financial and social returns.

Once considered a niche area, the arrival of blue-chip managers TPG, KKR and Bain Capital has brought impact investing into the mainstream, attracting a new segment of the LP universe. Since 2015, capital raised by impact funds has grown 154 percent to $28 billion, says Bain & Co.

Given the nature of today’s more challenged investment environment, ESG considerations are set to become more important than ever. A UBS research paper published in May predicts increased investor focus on ESG considerations after covid-19, with “particular demand for greater corporate transparency and stakeholder accountability”, and points out that “sustainability is at the heart of the recovery plan for many governments”.

The rise of ESG screening and the growth of impact investment managers has paved the way for a new breed of investors, writes Carmela Mendoza.
### Primavera Capital Group

**Beijing**

A bumper haul last year has made the growth capital specialist one of China’s largest firms.

Primavera Capital Group’s ascent in the rankings comes as little surprise given its recent success on the fundraising trail.

The Beijing-headquartered firm closed its third fund on $3.4 billion in November, which, at $600 million north of its target, was the second-largest ever raised by a domestic private equity manager. Fund III helped propel Primavera up 61 places in this year’s PEI 300 to also become the second-highest China-headquartered firm, behind only CITICPE.

Primavera was launched in 2010 by a cadre of former Goldman Sachs executives. Founder Fred Hu was previously chairman of Greater China at Goldman Sachs and a China specialist one of China’s largest firms. Founder Fred Hu was previously chairman of Greater China at Goldman Sachs and a cadre of former Goldman Sachs executives.

**Fund II**

Primavera was launched in 2010 by a cadre of former Goldman Sachs executives. Founder Fred Hu was previously chairman of Greater China at Goldman Sachs and a cadre of former Goldman Sachs executives. The firm targets control-oriented and growth investments in the consumer, TMT, financial services, education and healthcare sectors, either in China or cross border with a China angle. The firm had already begun putting the vehicle to work at the time of final close, having backed logistics affiliate Cainiao Smart Logistics Network, online residential marketplace Danke Apartments and e-commerce platform Xingsheng Youxuan, among others.

Notable deals over the past five years include backing the spin-off of Yum China – which owns the country’s KFC and Pizza Hut chains – from its parent in 2016 and participating in a $14 billion Series C funding round for Ant Financial in 2018.
The rise of private credit has changed the shape of private equity investing and necessity suggests it is here to stay, writes Rod James

Before the financial crisis, the private debt market consisted of a smattering of direct lenders. As of the end of 2018, the market had accumulated nearly $800 billion in assets and had enjoyed four consecutive years of $100 billion-plus fundraising, according to consultancy McKinsey.

Basel III, introduced in the wake of the crisis, placed stringent capital requirements on banks, restricting their ability to lend. In 2013, the Final Joint Guidance on Leveraged Lending was published by US regulators, limiting banks from issuing loans of more than 6x a company’s EBITDA. Debt funds, which were exempt, jumped right in.

Direct lending makes up around 40 percent of today’s market, according to estimates by sister publication Private Debt Investor. The majority is made up of funds covering everything from distress to subordinated debt, and special situations to asset-backed lending, spanning the risk-return spectrum. That’s not to mention the post-crisis rebound of collateralised loan obligations, securities backed by a pool of loans.

“It was very difficult to go to a bank 10 years ago and say, ‘I’d like a little bit more leverage, can you price it up just a little bit?’ They would say, ‘We have a credit standard and we do things the way we do them,’” says Romain Cattet, a partner with debt advisor Marlborough Partners.

Buy and build, minority deals, deals in which cashflows are automatically reinvested: all are innovations enabled by the flexible, private debt financing, he adds.

In the past that flexibility came at a premium to bank financing, but fierce competition between debt funds has dramatically narrowed the spread. Competition also triggered the rise of covenant-lite loans, with few restrictions on the borrower and less protection for the lender.

As of August, cov-lite loans accounted for 79 percent of outstanding loans in the US leveraged loan market, according to S&P Global Market Intelligence.

Covid, cov-lite

The covid-19 crisis is the first serious test of these loans. Robin Doumar, managing partner of $10 billion lender Park Square Capital, says cov-lite structures should prove helpful to sponsors in preventing “unnecessary balance sheet restructurings”.

A period of poor performance should not necessarily have negative repercussions, he suggests. The European head of a $40 billion private pension fund expressed confidence in his credit investments, saying lenders are “far more sophisticated” risk managers than their reputations bely.

One London-based private equity partner says sponsors shouldn’t bank too much on the flexibility of their lenders. In the second half, once it becomes clearer how businesses have been hurt, debt funds will seek cures to whatever ails them.

“I think it’s going to be a bit of a bloodbath,” the partner says. “Lenders have a duty of care to investors. Why would they not do things to enforce or accelerate the [repayment] of debt?”

Even if things do blow up, private debt is unlikely to be down for long. Private credit firms have raised capital they need to deploy, while private equity dry powder continues to pile up. The crisis is already producing attractive distressed opportunities. If the banks can’t help get these deals done, who else will?
Deutsche Beteiligungs AG

172 ▲
Frankfurt

DBAG gathered €2.7bn across its flagship and co-investment funds as well its expansion capital fund in the five years to March.

German mid-market firm Deutsche Beteiligungs jumped 98 places in the ranking, from 270th in 2019. Key to that is the more than €2 billion of capital the firm has raised across its 2016-vintage Fund VII and 2019-vintage Fund VIII. Both vehicles have a more than 85 percent re-up rate among repeat investors such as BMO Private Equity Trust and ATP Private Equity Partners.

The German-listed manager has longstanding experience investing in industrials companies in the DACH region but has in recent years expanded its investment strategy to include automotive and mechanical engineering, IT services and software, healthcare and telecommunications.

With its latest offering, the firm expects to back more IT services/software and healthcare companies, Torsten Grede, the spokesman of the board of directors of DBAG, tells PEI. The German Mittelstand – small and medium-sized companies – and family succession situations are also specialty areas for the firm.

When it comes to increasing its fund size, DBAG has been quite conservative over the years compared with most of its peers. Grede notes fund size discipline is necessary to successfully execute and deliver returns on the firm's investment strategy. "If we find a lot of attractive investment opportunities, we would rather go into the next fundraise earlier than expected.”
Narrowing the focus to industry sweet spots

Outperformance, better alignment with LPs and high-quality dealflow have driven some fund managers to narrow their strategies, writes Carmela Mendoza

From European healthcare and tech services funds, to clean tech and Chinese consumer-focused funds, private equity firms have zeroed-in on specialised investment strategies in the last decade.

Specialisation is certainly not new; PE firms have taken on several forms of it over the years, says Janet Brooks, a London-based partner at placement firm Monument Group.

Early specialisation tended to be around deal size, often with new groups starting out in the gaps created by successful firms moving up scale, she notes. As the industry evolved, firms differentiated themselves based on where they invest in the capital structure or the types of businesses they acquired.

For Hg, it was about getting in early on a long-term trend. The European manager shifted from a generalist mid-market buyout firm into a software and services specialist in the last decade. Managing partner Matthew Brockman says Hg identified software and tech services as a long-term trend.

“Software, for example, is a very significant part of the economy, it’s growing and adds significant value. Every day-to-day business activity – filing taxes, paying employees, running hospitals – is tech-enabled,” he says.

Hg’s around $10 billion of software and services proceeds have delivered gross returns of 2.6x and 34 percent IRR as at end-December 2019, according to its website.

Research shows sector specialists generate better returns. Per data from Cambridge Associates, sector-focused funds with an initial investment date between 2001 and 2010 have returned an aggregate 2.2x multiple on invested capital and a 23.2 percent gross IRR, compared with a 1.9x multiple and 17.5 percent gross IRR returned by generalist funds in that period.

Getting in line
Aside from outperformance, LPs are also keen to back specialists for better alignment. Sector-focused GPs are often teams that have spun out from bigger managers, says a former global head of private equity at a European investment firm.

“In a way these smaller GPs are better aligned with LPs because they are focused on outperformance [rather] than on fee generation,” he says.

The proliferation of sector specialisation is also a function of increased competition. With the amount of new capital coming into the industry, the ability to extract alpha just from value arbitrage has to a large degree disappeared. GPs wanting to stand out need to show their ability to transform companies through operational expertise.

Sector specialists have deep domain knowledge, industry contacts and a high number of repetitions in a sector, leading to increased high-quality dealflow, according to Cambridge’s study. Post-acquisition, specialists are also better at knowing what to do beyond financial engineering and often employ industry-specific operating and strategic skills to drive value in the business.

Big buyout shops have also adopted specialisation, either by hiring those with industry expertise or by adding new and smaller sector-focused vehicles. In 2008, Carlyle Group launched its first global financial services fund. The strategy is now on its third vehicle. Permira entered the growth-oriented tech market last year with a $1.7 billion debut growth vehicle, while Blackstone set up a dedicated life sciences vehicle in early 2019.
London-based Global Healthcare Opportunities or GHO Capital Partners is one of this year’s new entrants, having raised over $2.2 billion in the last five years to end March 2020.

The less-than-six-year-old firm has made its mark as one of the top GPs to watch in Europe, through its mantra of enabling better, faster and more accessible healthcare.

GHO raised the largest Europe-dedicated healthcare fund in November, gathering more than €990 million from LPs for its sophomore vehicle.

The fund was oversubscribed and is almost 50 percent larger than its 2014-vintage, €660 million predecessor. Capital raised from the vehicle will back healthcare sub-sectors such as outsourced services, pharma and medtech through growth buyouts.

While the firm has a pan-European focus, its transatlantic strategy is a key differentiator. The firm has had success in taking European businesses into North America, the biggest healthcare market in the world, and vice-versa. In fact, GHO’s exits last year from Montreal-headquartered Caprion Biosciences and UK-based Quotient Sciences exceeded return targets.

The specialist manager is also underpinned by a team with operational and healthcare expertise, including execs from American health company Quintiles, as well as PE firms 3i Group and TPG.
The evolution of the secondaries market over the past decade has brought material changes to how LPs and GPs engage with the asset class, writes Adam Le

It’s arguable the evolution of the secondaries market has been the biggest game changer for both LPs and GPs over the past decade. In 2010, the idea of a limited partner selling a stake in a GP’s fund still carried the stigma that the sponsor was a failed manager or there were problems in its portfolio.

Today, trading limited partnership interests has become commonplace and has gained in scale, with multi-billion-dollar portfolio sales hardly raising an eyebrow from the GP community. “It has made private equity actually a relatively liquid asset class,” says Richard Lichter, who co-founded secondaries giant Lexington Partners in the 1990s and is now managing director at Stamford-based Newbury Partners.

With this increased liquidity has come an about-turn in how investors approach the asset class. An LP committing to a fund at the beginning of the previous decade could assume its capital was locked up for at least 10 years. The proliferation of secondaries buyers and advisory firms, coupled with high levels of dry powder, have meant a pension fund that wants to consolidate its GP relationships, an endowment whose incoming chief investment officer wants a change in strategy, or a foundation that wants to reduce exposure to a particular region or strategy can now do so with high transparency, efficiency and in as little as one month.

“There are opportunities to get off the merry-go-round earlier in an investment fund’s life cycle now that are positively impacting the primary fundraising market in terms of how LPs think about their commitments to funds,” says Michael Belsley, who leads Kirkland & Ellis’s secondaries practice.

CPP Investment Board, Canada’s largest pension, made its last commitment to a secondaries fund as an LP in 2008 and has evolved to become one of the largest buyers in its own right. “It has made private equity actually a relatively liquid asset class,” says Louis Choy, a senior principal who helps lead the pension’s European secondaries team.

“We’ll start to see more financial instruments crop up that make the secondaries market look more like a financial market,” Green says. “Derivatives on secondary trades, trading platforms for LP interests. If the market gets enough scale, you’ll start to see it act more like a securities market.”
Arcline Investment Management

San Francisco

A huge debut fundraiser has propelled this emerging manager into the PEI 300.

Less than a year after setting up shop, San Francisco-based Arcline Investment Management smashed through its $1.25 billion target to close its debut fund on $1.5 billion after just four months in market, landing it squarely in PEI 300 territory.

The firm was set up by former Golden Gate Capital executive Rajeev Amara, who was joined by fellow Golden Gate alums Shyam Ravindran and Alex Iannaccone and Sentinel Capital Partners’ Luke Johnson. The firm will “continue to execute the same strategy developed and employed during the founders’ tenure at Golden Gate Capital”, according to documents from Texas Municipal Retirement System, which committed $50 million to the fund.

Arcline invests in control buyouts of niche mid-market businesses, targeting companies valued at up to $1 billion. A generalist, the firm’s primary areas of interest include industrials, technology, life sciences, specialty chemicals and personal care.

Arcline has wasted no time on the dealmaking front. The firm has already made seven platform investments and six add-ons, including investing in Dark Horse Consulting Group, acquiring a majority stake in cell and gene therapy materials supplier Akron Biotechnology, acquiring engines and power generation systems manufacturer Fairbanks Morse and acquiring Unitec Elevator from Pacific Avenue Capital Partners.
Five-year fundraising total of PEI 300’s Top 50

$1.12trn

Five-year fundraising total of firms 51-100

$359bn

Collective fundraising efforts of 54 new firms in the ranking

$121bn

By the numbers

How the PEI 300 firms stack up against each other

Five-year fundraising total of firms 151-300, roughly equal to the amount raised by the top six firms ($325bn)

$309bn

Capital needed to get into the ranking

>$1.4bn
A lot can change in a decade

Bigger. More variety. The PEI 300 has grown and grown over the years. What might it look like in 2030?

Number of firms in the PEI 300 by region

- **NORTH AMERICA**: 201
  - $1,443bn Total capital raised
- **EUROPE**: 50
  - $354bn Total capital raised
- **ASIA**: 47
  - $185bn Total capital raised
- **LATIN AMERICA**: 1
  - $3bn Total capital raised
- **MENA**: 1
  - $2bn Total capital raised

**Key Figures**

- **$3bn**: Median amount raised in 2020, up from $2bn in 2010
- **$1.99trn**: Amount raised by PEI 300, up from $1.31trn in 2010
- **9**: Number of Asia-Pacific-based firms in top 100 in 2020, up from 5 in 2010
- **$5.41bn**: Amount needed to break into top 100, up from $3.23bn in 2010
- **$1.12trn**: Amount raised by PEI 50, up from $771.5bn in 2010
- **$178bn**: Amount raised by bottom 100, up from $110bn in 2010