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# **Starting a Lucrative New-Managers Program**

## **Private Equity Analyst Conference 2004**

### **Panel discussion**

**21 September 2004**

# Starting a Lucrative New-Managers Program

*Or:*

*How do you pick the next generation  
of top quartile managers?*

# Panel Participants

## Panellists:

Philippe Poggioli

Access Capital Partners

John Kim

Capital Z Partners

Bradley Atkins

Franklin Park Associates

Jonathan Bloch

GKM Generation Funds

## Moderator:

Armando D'Amico

Acanthus Advisers

# Acanthus Advisers

- Independent fund placement and corporate advisory firm founded in 1998. London based
- Fund placement focus: €100-400m
- Significant work with emerging managers, typically mid-market buy-out groups...
  - Cape Natexis (Italy), Perfectis (France), Sovereign (UK)

# Objectives

Compare and contrast the views of the panellists on

1. Why and how they invest in new managers
2. How they attempt to pick the next top quartile managers!
3. What tips they can share with the audience on critical do's and don'ts on selecting, investing in, and monitoring, emerging managers

# Questions for the panel

1. What is your involvement with new managers?
2. Why do you consider new managers?
3. Why most investors shy away from new managers?
4. Is the supply of new managers increasing? Why?
5. Do new managers really produce higher returns?
6. How do you make sure in your due diligence that they have what it takes to achieve superior returns?
7. Once you have decided to invest do you take actions to make sure they will be successful in raising their fund?
8. Once you have invested do you take actions to ensure the new manager is on track?
9. What are your top tips for the audience?

# European Emerging Managers...

<u>Fund name</u>	<u>Contact person</u>	<u>Inv. range</u>
Alan Patricof	Ronald Cohen	\$150k-3m
Baring Capital Inv	John Burgess	\$3-15m
Citicorp Vent Cap	Jon Moulton	\$500k+
Candover	Roger Brook	\$750k+
CIN Industrial Inv	Paul Whitney	\$500k+
County Bank Dev Cap	Andrew Davison	\$500-750k
F&C	James Nelson	\$200-750k
Hambro Eur. Venture	Ed Truell	\$750k-1.5m

*Source: BVCA Directory, 1985 and 1989*

# European Emerging Managers...

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BC Partners	John Burgess	\$3-15m
CVC	Jon Moulton	\$500k+
Candover	Roger Brook	\$750k+
Cinven	Paul Whitney	\$500k+
Bridgepoint	Andrew Davison	\$500-750k
Graphite	James Nelson	\$200-750k
Duke Street	Ed Truell	\$750k-1.5m

...have grown up

Several new managers have entered the market in Europe in last 2-3 years....

...Activa, Altor, Argantis, Chequers, Clessidra, Englefield, Exponent, Inflexion, Langholm, MBO Partenaires, Natexis Cape, Nordwind, Orlando, Palamon, Penta, Perfectis, Pragma, Qualitas, Sagard, Sagitta, Sovereign, Terra Firma....

...and in the US

...Arsenal, Friend Skoler, Gores Capital Partners,  
Golden Gate, New Mountain Capital, Onex Partners,  
Platinum Equity, Silverlake, W Capital Partners.....

# Investitori Associati (Italy)

Fund I	1992	€15m
Fund II	1995	€60m
Fund III	2000	€400m
Fund IV	2004	€700m*

\*Oversubscribed by €300m...

# Questions for the panel

## 1. How do you define, and what is your involvement with, new managers?

- *have you already invested significantly in new managers; for how long*
- *do you have a formal program in place....or are new managers a small portion of your portfolio*
- *or perhaps you are only considering this sub-asset class now*
- *do you go as far as taking a stake in the management company and a share of the carry, etc*

# Questions for the panel

## 2. Why do you consider new managers?

- *to bet on future stars and generate higher returns...*
- *to cover specific niches...*
- *to balance your portfolio...*
- *to have more influence as LP...*
- *to have a share of the carry...concerns with established managers (funds too big, succession...)*

...and what are risk of not investing in new managers at all?

# Questions for the panel

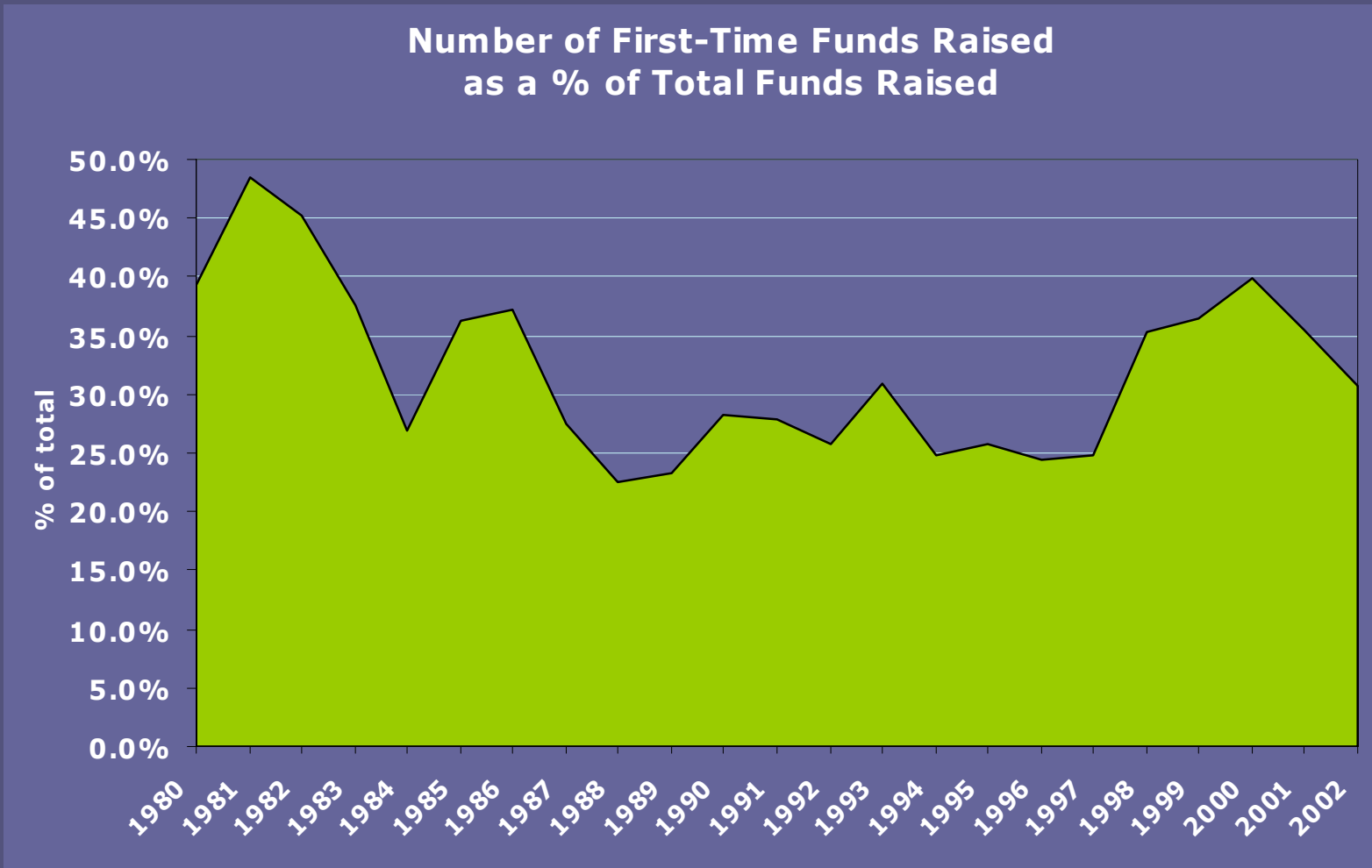
## 3. Why most investors seem to shy away from new managers?

- *unproven...cannot convince my trustee/board/committee...*
- *“No-one has been fired for buying Kleiner Perkins”....*
- *I do not have enough resources...*

# Questions for the panel

- 4. Do you believe the supply of new managers has increased over the last 3-5 years and why? Give examples.....**
- *natural evolution of the industry...*
  - *...or the brand names' inability to effectively compensate and retain emerging talents?*

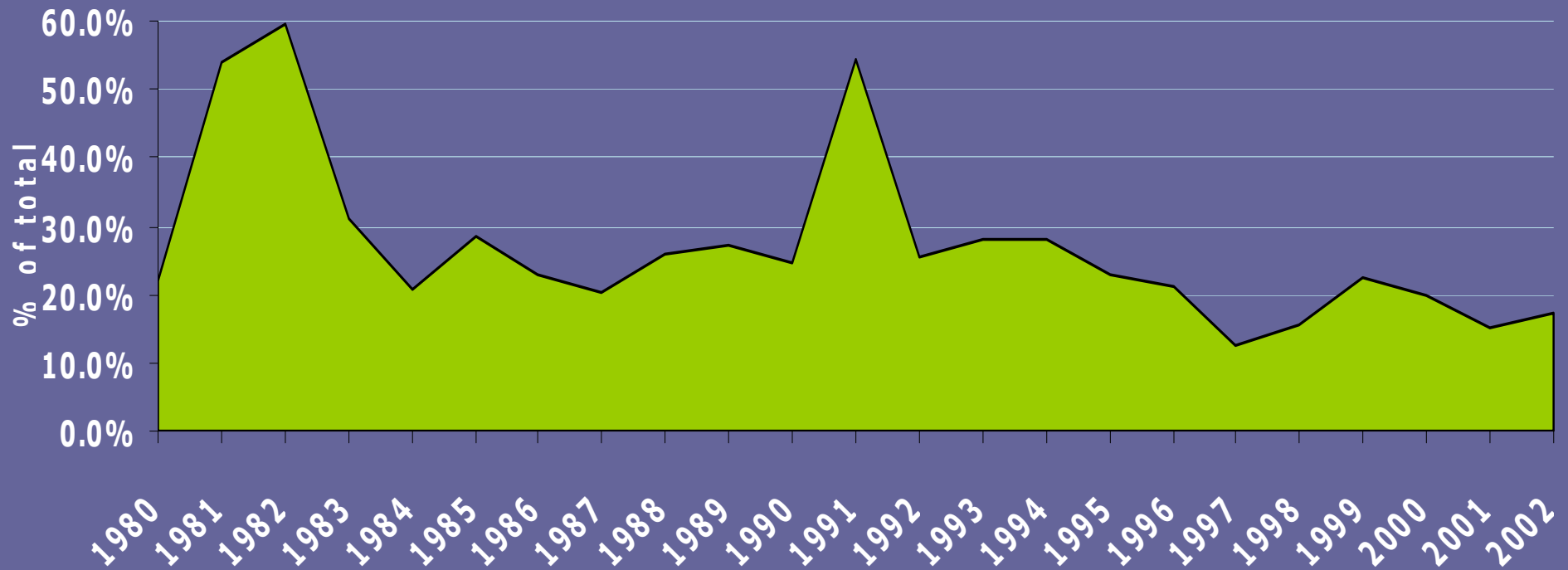
# Number Funds Raised



*Source: Franklin Park LLC, Venture Economics*

# Capital Raised

Capital Raised by First-Time Funds  
as a % of Total Capital Raised



Source: Franklin Park LLC, Venture Economics

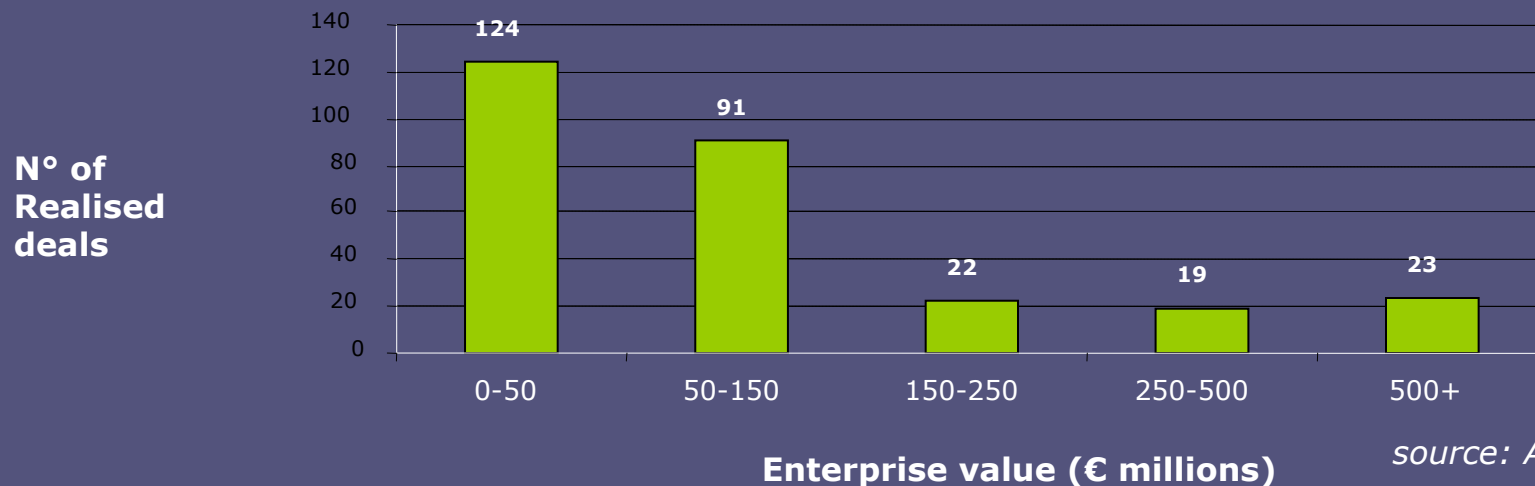
# Questions for the panel

5. Do new managers really produce higher returns?
  - *opinions are divided...*

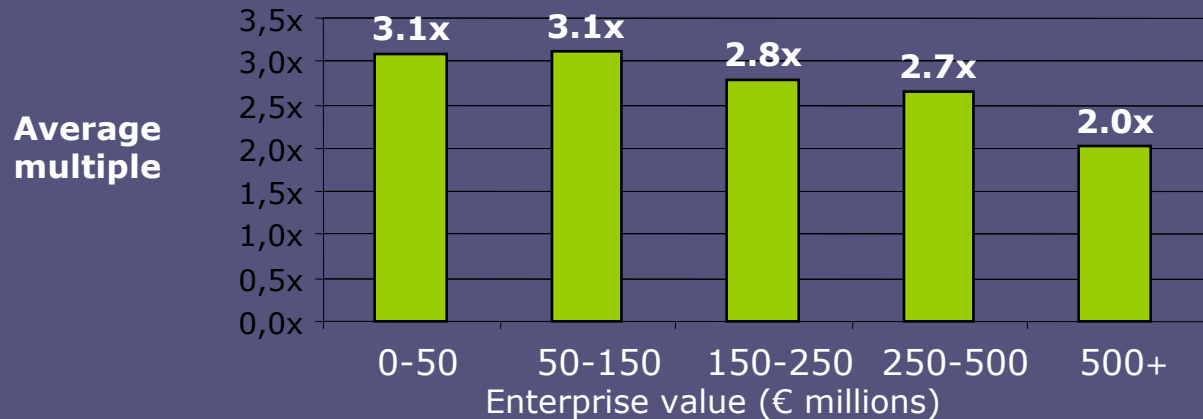
# Today's stars started small...

- Access Capital Partners has conducted a study of 281 deals in which today's largest European buy-out houses (with latest funds over €1 bn) have invested and have exited from during the period 1990 – 2004

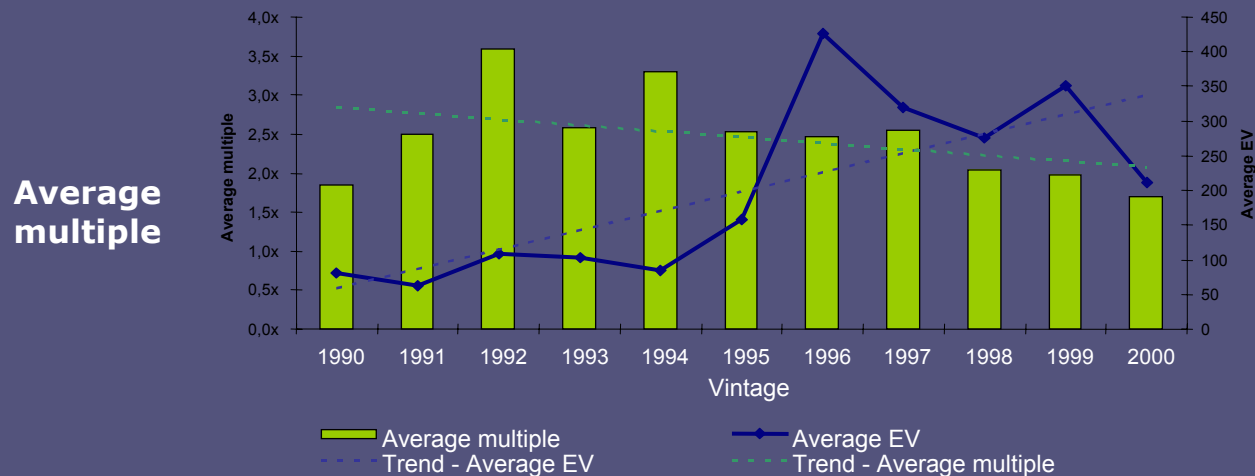
It indicates that successful buy-out groups have built their reputations with small funds investing in small to mid-market transactions



# .... and generally experience decreasing returns as they grow



- Highest multiples were achieved with small to mid-market deals

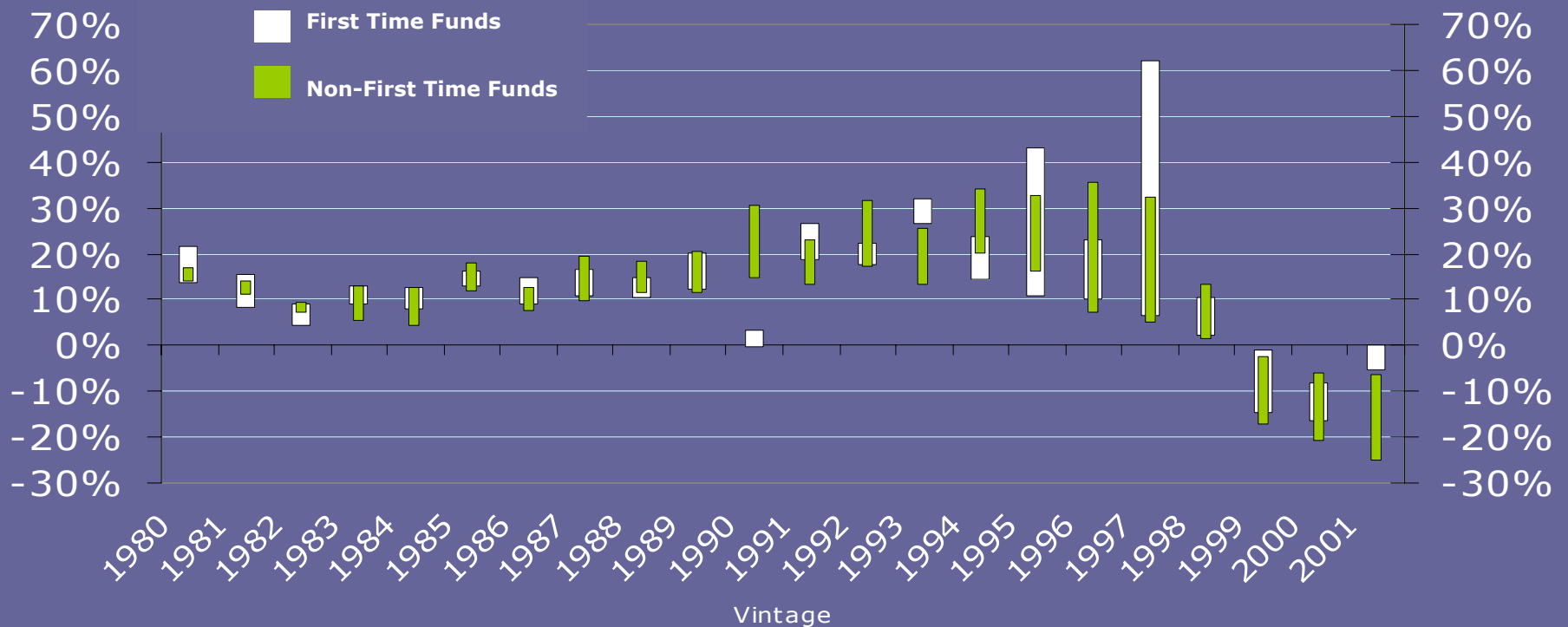


- Constant decrease in cash multiples with rising EV

Source: Access Capital Partners

# Return Variability

## Return Spread Between Median Quartile and First Quartile First-Time Funds vs. Non First-Time Funds



Source: Venture Economics, Franklin Park LLP Analysis

# Questions for the panel

6. How do you make sure in your due diligence that they have what it takes to achieve superior returns?

# Due diligence - GKM

## Spinout Firms

- Mitigate risks if partners have worked together
- Startup period proves working relationship
- Level of direct investment in partnership
- Strategy which is consistent with experience
- Stability of team
- Overhang from prior investments.
- How reasonable are salaries and bonuses
- Workload per partner

# Due diligence – GKM (cont'd)

- Do individual components make sense
  - Partner's time and expertise
  - Access to deal flow
  - Ability to add real value – time capacity
- Previous track record
  - Writeoffs and writedowns indicate disciplines
  - Sectors which held value and those that did not
  - Real value of previous portfolios (vs. fair value)
  - How much work is remaining?

# Questions for the panel

- 7. Once you have decided to invest do you take actions to make sure they will be successful in raising their fund?**

# Questions for the panel

8. **Once you have invested do you take actions to ensure the new manager is on track?**
  - *how much monitoring or...micromanagement?*
  - *do you impose any specific clauses?*

# Questions for the panel

- 9. What would you share with the audience as your top 3 tips for successfully investing in new managers and the top 3 pitfalls to avoid?**