PEI Alternative Insight

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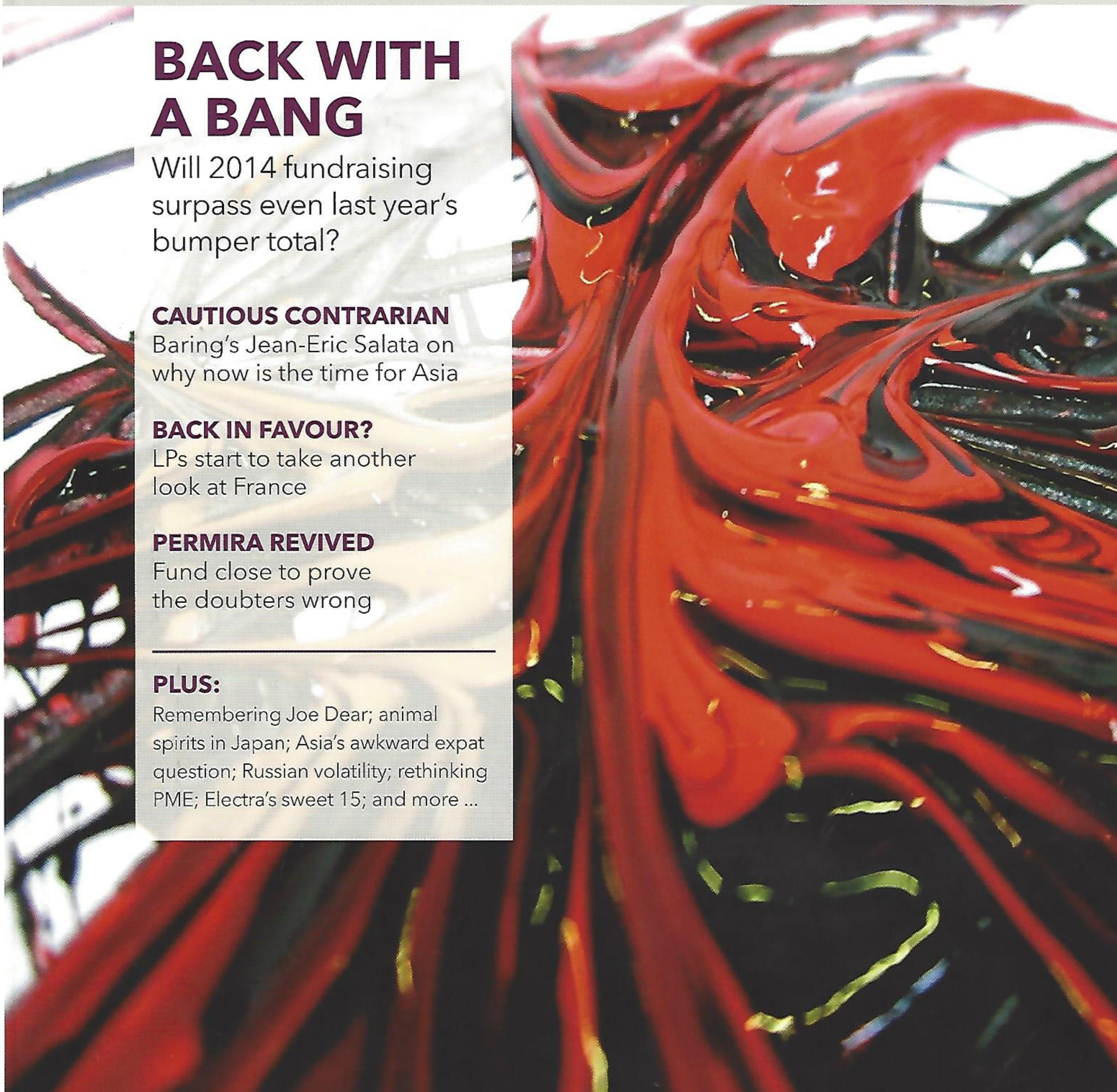

BACK WITH A BANG

Will 2014 fundraising surpass even last year's bumper total?

CAUTIOUS CONTRARIAN
Baring's Jean-Eric Salata on why now is the time for Asia

BACK IN FAVOUR?
LPs start to take another look at France

PERMIRA REVIVED
Fund close to prove the doubters wrong

PLUS:
Remembering Joe Dear; animal spirits in Japan; Asia's awkward expat question; Russian volatility; rethinking PME; Electra's sweet 15; and more ...

CLAUDIO SINISCALCO, HARBOURVEST PARTNERS

Appetite and execution

In February, PEI revealed that HarbourVest Partners was nearing a $1 billion final close on its third co-investment vehicle. The firm declined to comment on the specifics of fundraising – but here, principal Claudio Siniscalco tells us why there's an increased appetite for co-investments generally among LPs

Q Co-investing seems to be a popular strategy at the moment. Has the market changed in this respect?

Today there are definitely more LPs raising their hands and even demanding co-investment rights when making a fund commitment. So I think the market is paying more attention to co-investments. One of the reasons why [they] have been increasing in popularity is because certain LPs have viewed it as a way to lower fees. However, I actually don't think that the number of LPs with co-investment teams is very different [from] five years ago. The appetite for it and the actual execution are two different stories.

Q What are the advantages of co-investing compared to making primary commitments?

For HarbourVest, one [attractive] aspect of co-investment is that it allows us to build additional exposure to a manager, geography, stage, or industry. Co-investing also enables HarbourVest to select opportunities to invest alongside teams that we believe are the best industry experts for a particular deal. [So] the HarbourVest team can identify opportunities for our clients where we invest with the telecom expert in the TMT space, and the financial services expert in the financial services space.

Q How do your co-investments typically work?

We are typically investing alongside a lead GP who buys a controlling stake. There are cases where we are almost equal in size – say a 51 percent and 49 percent split – or there can be a consortium with three co-investors all having a third stake. We don't seek to interfere in governance; we are more focused on making sure our investors' interests are covered with appropriate minority protection rights. But ultimately we want the GPs to lead these companies, including developing a path to liquidity or divestment.

[Our] co-investment appetite is generally a minimum of $20 million and a maximum of a $100 million of equity per deal. I could see [us] closing as many as 15 to 20 co-investments per year in a busy year – across large buyout, medium buyout, small buyout, and growth equity deals. The US has traditionally been our largest source of [dealflow], followed by Western Europe, then by Asia and emerging markets.

Q Considering the current levels of appetite, competition must be quite high. How do you ensure access to good co-investment opportunities?

We take a partnership approach. We don't believe in co-investment 'rights'; we believe co-investment is a privilege and one that should be lived up to. You [do] that by having a dedicated team, having execution capability, and working hand-in-hand with the GP to meet their deadlines and requirements. That's our way of earning the privilege to co-invest, and we believe GPs appreciate that approach – rather than being told that we expect to be shown things.

The number of co-investments that we decline far outnumbers the number of co-investment opportunities we pursue, by about 15 to 1. The way you decline an opportunity and the speed, transparency and feedback with which you do that is equally as important as the communication about the deals you move forward with, because you hope to be able to access further deal flow from that GP in the future. Wasting their time is a good way of making sure this won't happen. I can't speak for other market participants, but the feedback we get is that other co-investors sometimes leave GPs 'at the altar', complicating their deal processes as a result. ■

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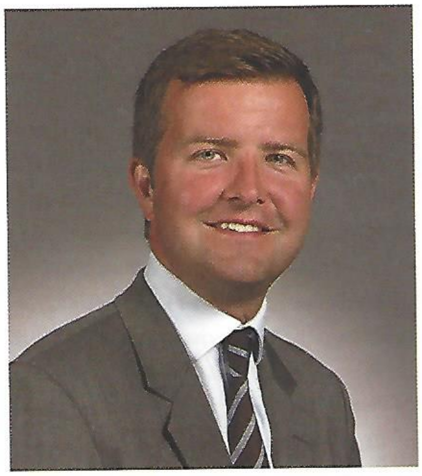

Siniscalco: *the way you decline deals is just as important*