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SIDE BY SIDE

Covid-19 has strengthened LP-GP relations.



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Editorial

Leader Talya Misiri

Swamped?

Managers need to rethink their communications to ensure they are clear and concise and do not overwhelm recipients. In contrast, diversity is one area that they need to elaborate on.

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Feeling like you've got too much work to do? Struggling to keep up with new information and communications, and working around the clock from your home office? You are not alone.

The current climate has meant that news is moving at a rapid pace and with continuous updates regarding Covid-19, the global economy, social movements and industry-specific happenings, it is easy to feel swamped.

Over the last few months, we have been pleasantly surprised (and relieved as journo's) to see the private equity sector become not so private. Managers have increased their efforts to keep their investors and the public informed on changes in their portfolios, as well as charitable initiatives and efforts to combat the Covid-19 crisis. Firms are racing to remain relevant.

This issue's cover feature (page 6) looks at the way communications and the relationship between GPs and LPs has changed in the current climate. While the two parties have become much closer during this time, there is a fine line between helpful information and too much information.

Speaking to GP and LPs, the idea was floated that GPs may be providing their investors with too much information. Charterhouse partner Gilles Collombin told *Real Deals*: "Most LPs will tell you that they have too much information. There is plenty available... there won't be many LPs that say they don't have enough information."

Clearly, we shouldn't assume that people will have more time on their hands during this period and going forward. While more information than usual can be beneficial at present, GPs must focus

on providing concise and tailored information for their investors.

Diversity and inclusion

An area that we cannot discuss enough, however, is diversity and inclusion. Social movements in the last few weeks, particularly the Black Lives Matter movement, has shone a light on racial inequalities that persist in society today and the changes that need to be made.

As noted in our diversity focus (on page 24), Harvard Business School and Bella Research Group have found that fewer than 1.3 per cent of the \$69trn in global assets under the four major asset classes – mutual funds, hedge funds, real estate and private equity – are led by women and people from ethnic minority groups. As a fairly new asset class in comparison to its peers, it is both surprising and disappointing that this significant inequality remains an issue in private equity.

Wol Kolade, a managing partner at Livingbridge and one of few black men in a senior position in the industry, recently published a statement of his own experiences of prejudice and racial discrimination that he has been victim and witness to.

Kolade highlighted that this is something that cannot be sidelined by unaffected people. "If you do not identify as a person of colour, you also have a role to play in turning the tide. Do not ignore this conversation, especially when it gets uncomfortable. Start by understanding; take the time to educate yourself," he said.

"I will certainly be asking my colleagues and fellow board members to look again at the steps being put in place to address the shockingly low representation of BAME leaders in private equity, business and healthcare," Kolade added.

Internal and external conversations must continue when it comes to integrating true diversity policies and equal opportunities into the workplace.

Deputy director general and director of policy at BVCA, Gurpreet Manku also told *Real Deals*: "Part of the solution will be continuing to promote careers of people in the industry with diverse backgrounds and reaching out to potential candidates from different ethnic or social backgrounds."

"For some firms this might mean offering more internships or broadening their recruitment focus."

Diversity and inclusion is an area that *Real Deals* considers to be incredibly important and we hope the industry will convert their words into actions to make a real change and move towards championing equality. ●

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Cover illustration
istock

Alphabites

EQT launches first ESG bridge facility

EQT announced the entry into an ESG-linked subscription credit facility (SCF), which is currently at €2.3bn and has an upper limit of c.€5bn.

The facility, signed with a large syndicate of lenders including BNP Paribas and SEB Group, is the largest of its kind across the global fund finance markets.

According to the GP, the facility is a “game changing moment for EQT but also the private equity industry.”

The SCF is coupled with a pricing mechanism, designed to accelerate ESG performance of EQT’s portfolio companies. The mechanisms are directly linked to EQT’s diversity and climate targets, as well governance and transparency commitments. EQT will report the relevant KPIs quarterly, along with annual audits. The aggregated results will then be compared with the pre-set KPI targets. The average fulfilment rate will impact the ESG-bridge facility’s interest rate. ●

Swedish trio set up new firm

Three Swedish companies - private bank SEB, pension fund AMF, and asset manager FAM - have invested €330m to launch Sindre Invest.

The new firm has been set up to make private equity investments in mid-sized Swedish businesses affected by the pandemic. It will take minority stakes in businesses with annual sales of over SEK 300m, investing between SEK 50m and SEK 400m per company.

Investments will last between three to five years and the firm is expected to operate for a total of ten years. Between the three founding companies, AMF will invest SEK2bn, SEB will contribute SEK1bn, while FAM will invest SEK500m.

SEB’s Jan Amethier, who will leave the group to serve as CEO of Sindre Invest, said: “The situation we are encountering is that many companies are trying to get through this with the help of government support programmes and debt relief.” Sindre Invest will be ready to invest from 1 July 2020. ●



92% of LPs cite proactive engagement from GPs

The most communicative GPs are setting a high bar, making the laggards look weak in comparison, says a new survey by Brackendale Consulting.

Almost all, 92 per cent, of LPs are satisfied with the level of engagement and information that they have been receiving from their respective GPs during this time, Brackendale Consulting has found. According to Brackendale’s LP Private Equity Sentiment Survey 2020, most LPs claim that they are seeing proactive updates, analysis and action plans from most GPs, in regards to the impact of Covid-19 on portfolios.

Only 8 per cent of LPs claim that some GPs are not communicating enough, or at all. One LP alluded to a “bell curve of transparency and communicativeness, with the best GPs setting a high bar, making the laggards look weak in comparison.”

While satisfied with communications, however, 92 per cent of LPs said that their distributions had been negatively impacted by the pandemic.

When asked about new funds, 62 per cent of LPs are willing to make commitments to new funds even if they are not able to visit them and the remaining 38 per cent said they’re focusing purely on re-ups. A further 32 per cent have been forced to place fund commitments on hold.

Almost three quarters of LPs told Brackendale that they plan to become more active in the secondaries market as a direct result of Covid-19.

A further 12 per cent of LPs are now turning to new market segments such as special situations, turnarounds and private debt, moving away from sectors like consumer and energy.

Fay Margo, founding CEO at Brackendale said: “It is heartening to discover how well GPs are responding to the current crisis, and that LPs are open to new ways of being pitched to, and even to commit without having to meet the fund managers in person.” ●

BRIEFS

EQT opens Paris office

EQT has opened a new office in Paris to accelerate investment activities in France as well as support and develop existing local portfolio companies. The new office will be led by Nicolas Brugère, who joined EQT in January 2020 as partner, and now assumes the position as head of EQT France. The Paris branch will aim to capture new opportunities in the region across all EQT’s business segments.

Mental health not a priority

Mental health issues are an increasingly prevalent cause of absence from work. But most PE firms are not engaging with their employees’ wellbeing during lockdown.

In PER’s most recent Taking the Temperature report, which examines the impact of coronavirus on hiring, compensation and confidence, it was revealed that only 28 per cent of those surveyed said that their organisations are implementing additional mental health and well-being practices.

Cambridge Associates opens German office

Cambridge Associates has opened a new office in Munich, Germany to support its European client base. The office is the firm’s second European location, after London, and will be led by Alex Koriath, regional head for Germany. Cambridge Associates has had a presence in Europe for more than 26 years serving as a value-based institutional investor focused on building diversified portfolios.

Alphabites

LPs take more selective approach

LPs are to take a more selective approach to new allocations by increasing their scrutiny in due diligence, according to Cebile Capital's May 2020 LP survey, which looks at how investors are responding to the challenges of Covid-19 and their expectations for the future. The survey reveals 64 per cent of LPs expect to miss their deployment target for 2020.

Meanwhile, close to 70 per cent said slower deployment was due to a more selective approach to new allocations.

While LPs are largely maintaining their previous allocations to fund strategies in terms of size and geographies, there has been a surge of interest for special situation funds. Mid-cap, sector-focused and credit funds are also seeing higher interest.

LPs are clearly focusing on managers that have demonstrated the ability to protect capital and add value during volatile market conditions. ●

Preferred equity to rise

While Covid-19 has been dominating news headlines and recent economic forecasts over the last few months, a new Investec report notes an array of trends in GP market sentiment that have been unfolding over the past year. In its annual GP Trends report, Investec found a significant rise in preferred equity. While it has been a tool for some time, it looks set to become a much more prevalently used one moving forward.

Pre Covid-19, 14 per cent of GPs expected to utilise preferred equity, that has ticked up to 24 per cent since the crisis.

The report also highlights an increase in expected use of syndicated loans used to finance more portfolio acquisitions. This comes as GPs face difficulty ascertaining how credit funds are going to perform in a distressed scenario. Whereas banks are seen to have far more experience with restructuring and longer relationships. ●

Investors see PE as a source of positive change

PE is a positive source of industry disruption, but climate change isn't being considered seriously, according to LPs surveyed in Collier Capital's latest Global Private Equity Barometer.



Pprivate equity is a positive source of industry disruption, but climate change isn't being considered seriously enough in investment practices, that is according to Collier Capital's latest Global Private Equity Barometer.

Two thirds of investors regard private equity as a source of creative disruption and a catalyst for change in the industries in which it invests.

David Jolly, partner at Collier Capital, explains that GP's deploy best business practice within their portfolio companies and those practices inevitably spread across an industry. "GPs have to work hard to improve the companies in their portfolios. As an ownership model, PE is always challenging portfolio companies to perform better, and that is helping them to become more efficient and grow."

"A challenging and changing environment for a portfolio company brings change to a sector and their competitors are forced to react. It improves businesses

more broadly across an industry."

While PE is seen as dynamic in navigating and leading sector change, more is left to be desired when it comes to climate change. Jolly said that most investors believe GPs are not taking it seriously enough in terms of investment policies and investment practices that they see them applying.

"LPs are challenging GPs to be cognisant of climate change risks and take them into account when they are deploying fund capital, considering, for example, potential impacts on portfolio companies from environmental regulation and from climate change itself."

"There is an element of LPs challenging GPs to think about it a bit harder and take into account the potential risks of climate change when they are deploying capital." The survey also found that many private equity investors believe rising geopolitical tensions will have a material effect on the asset allocation of private equity and venture capital funds in the next few years. ●

Climate for distressed funds to improve

Distressed funds specialising in debt, turnarounds and special situations are likely to be the biggest near-term beneficiaries of Covid-19, a new survey by Intertrust has found. Findings show that an overwhelming majority of fund managers (92 per cent) are preparing for a marked increase in the volume of distressed fund transaction activity over the next 12 months.

Plummeting valuations caused by Covid-19 presents attractive buying opportunities for GPs who have large amounts of capital to deploy. Almost half of the fund managers surveyed (46 per cent) believe that mismatches in valuation expectations between buyers and sellers will serve to restrict deal flow.

Most respondents (83 per cent) said they expect the fundraising climate for distressed funds to improve over the next 12 months, of which 42 per cent say it will significantly improve. ●

Small manufacturers should be included in R&D tax relief

Elaghmore has called on the Government to support small UK manufacturers by widening the scope of R&D tax relief to include business development costs.

The GP asserts that if UK manufacturing SMEs are to survive, they will need help to develop new products and find new markets.

Currently R&D relief supports companies that work on innovative projects in science and technology, even those that are unsuccessful. The scheme allows SMEs to deduct an extra 130 per cent of their qualifying costs from their yearly profit, as well as the normal 100 per cent deduction, to make a total 230 per cent deduction. A tax credit can be claimed if the company is loss making. ●





STRONGER THAN EVER

Covid-19 has led to a strengthened relationship between GPs and LPs and working patterns are likely to shift for good, *Talya Misiri* finds.

Known as a people and relationships industry, the dynamics of those working within private equity has continued to evolve as the asset class has matured.

One of the crucial, primary relationships is that between General Partners (GPs) and Limited Partners (LPs). Long gone are the days where LPs were purely a source of capital for private equity managers. And today, an honest and transparent partnership between the two continues to develop.

The pandemic-induced lockdown has led to a considerable increase in communications between GPs and their LPs, as managers work to keep their investors updated with changes in their portfolios.

Speaking to *Real Deals*, Carolina Espinal managing director at Harbourvest says: “The words I’ve heard throughout the crisis across everything have been ‘accelerate and amplify’ and I think the relationship and the communication [between LPs and GPs] has really amplified during the lockdown.”

Indeed, Nordic Capital COO Klas Tikkanen’s explanation of his changed working patterns exemplifies this. He says: “I’ve never had more LP meetings per week than I am having now. One day I started at 7:30am speaking with Asia, then I continued with Europe through the day and I had my last meeting with an LP in the US at 8:30 in the evening.”

Hands-on approach

Contact between LPs and their GPs has certainly accelerated during this period. Brackendale Consulting’s LP Private Equity Sentiment Survey found that some 92 per cent of LP respondents claim that they are seeing proactive engagement, regular and thorough updates, analysis and action plans from most GPs on the impact of Covid on existing portfolios, with additional information often being provided via “Covid-calls”.

Meetings between GPs and their LPs have increased since the early days of private equity and up until before the outbreak of the pandemic, GPs would aim to meet their LPs around two to three times a year, including at their AGMs.

Now, however, although travel is prohibited,



these meetings have become considerably more frequent and GPs are adapting their AGMs to become a virtual, online event.

“We’ve been invited to a number of conference calls and it’s typically not just a one and done call. A month later, the same GP may reconnect again and organise a follow-up call. In some cases we are on the fourth iteration,” Joana Rocha Scaff, managing director at Neuberger Berman, highlights.

A number of managers are providing their investors with regular, sometimes fortnightly updates in relation to the portfolio or specific investments. And, communicating via digital tools such as video conferencing and sharing reports and information virtually has enabled managers to provide real-time updates.

Espinal comments: “Digital platforms have helped hugely; having webcasts and video calls has been very helpful and we can share information across multiple touch points and people. I hope it is the foundation for continued, great communication with our GPs.”

Where historically, LPs were kept at arms length, investors are now keen to understand how their money is being invested and GPs are much closer to their investors.

“It’s clearly more of a partnership-driven relationship and that works very well,” Charterhouse partner Gilles Collombin says.

While GPs and LPs alike are upping their efforts to ensure continuous updates and information sharing during the current pandemic, however, not all LPs are satisfied. Brackendale’s survey also noted that 8 per cent of LPs claimed that some GPs are not communicating enough, or at all, given the current situation. One alluded to a “bell curve of transparency and communicativeness, with the best GPs setting a high bar, making the laggards look weak in comparison”. On the whole, however, there has been a material increase in communication between the two parties.

Looking forward, Collombin opines that the frequency of communication is not something that can be sustained post-Covid. He says: “Today, most LPs are primarily monitoring portfolios, that’s why they have more bandwidth to communicate with GPs. But soon, they will have to go back to investing, and the more they do this, the less time they will have for monitoring. What we are doing today

in terms of interactions will have to be reduced slightly to ensure LPs are able to cope.”

Active management

LPs have become not-so-limited partners in the LP-GP partnership and are also taking a more active role in managing their money.

Monument Group partner Janet Brooks notes that a “much greater number of LPs are falling into the active camp”. These investors are seeking greater involvement via co-investment, encouraging ESG and impact investing and pushing for improved governance by their GPs.

Espinal says: “Our goal is to help to educate and provide best practice insights to our GPs and to help to foster adoption of ESG policies and application of them in a collaborative way.”

Scaff adds: “We are definitely committed to moving forward with ESG integration for our own investments and we are helping the PE community to move forward with this journey as well.”

For many LPs, it is no longer about whether a GP can deliver returns, instead, it is about how they do this. A number of LPs are signatories of the UN PRI and have ESG scorecards to track their managers’ integration of ESG policies into investments. In addition, LPs have become increasingly more vocal on advisory boards, to ensure that their capital is managed in a desirable, sustainable way.

In order to encourage this, some LPs, including Neuberger Berman, Scaff says, are leading seminars to educate their partners and GPs on better investment practices around ESG integration.

Investor relations

During times of crisis and with LPs taking on more active roles, the IR function has become almost vital to serve enhanced communication needs.

Like many aspects of the industry, “IR today is very different from what it was 15 years ago,” Collombin says. “It was a lot about providing info to LPs, period. Now, it is much more two-way traffic.”

The IR function within a private equity firm is “the voice of the GP to the LP community,” Silverfleet head of investor relations Andrew Harrison says.

He explains that the IR team or persons are crucial to maintaining strong LP GP relationships. These teams are able to share greater information between GP and LPs and in turn, strengthen their ongoing dialogue.

Nordic Capital’s Tikkanen agrees that the IR function is key to this partnership, especially in the current environment.

“In a crisis like this, when the need to communicate, reassure and get information is paramount, the IR function plays a critical role. It is extremely important to have an IR function that knows the LPs well and is in close communication with them as and when needed.”

Trust & transparency

Indeed, the Covid-19 pandemic has led to increased calls for transparency between GPs and their LPs and it has become clear that this is a vital part of the investor-manager relationship.

“We run a ‘no surprises policy’. Whether it is good or bad, we are able to communicate this to our investors and they know what is happening, that drives trust,” Harrison says.

Quite like the key to a successful marriage, a successful relationship with your investors requires trust, Charterhouse partner Gilles Collombin agrees. “It is a marriage,” he notes. “You are not buying into PE with a view to selling it immediately, so you need to know what and who you’re committing to.”

Silverfleet’s Harrison explains that this period has been beneficial for GPs to understand what communications and relationship works best for their LPs. “I’ve spent a considerable amount of time in direct dialogue with our LPs during this period... [this has helped with] understanding exactly what they’re looking for and refining our relationships. Tailoring our information to LPs can drive a closer relationship.”

Gary Tipper, managing partner at Palatine adds: “We are regularly honest and open with our investors about the good, the bad and the ugly.

“It’s great to be able to inform LPs of successful investments, but you should also be able to tell them when you’ve got issues in the portfolio that need to be sorted out. Open and transparent is the way the industry should be.”

Overall, the industry has been just this through the period and the restrictions of the Covid-19 lockdown has led to many lessons learned that will shape the industry in the future. GPs have learnt how to work even more closely with their LPs and travel restrictions have enabled both parties to realise just how much can be achieved online and without multiple visits a year. ●

CO-INVESTMENT

Pre-covid, appetite for co-investments was rife and on the whole, it is anticipated that these will continue to gain considerable traction going forward.

Monument Group’s Brooks says: “For a lot of investors, co-investment is growing. Allocations are probably still at a very high level, as in the last few years they have grown and I think that will continue.”

Nonetheless, the types of investors that are interested in these opportunities are changing.

“That segment of the market [co-investment] has been very interesting because we saw a lot of the larger co-invest players, sovereign wealth funds and other larger investors take a step back. So that means investors like us, and our ability to take these, has increased our dealflow,” Espinal says.

Those that are gaining the best co-invest opportunities are the investors with a specialised co-investment team.

Collombin opines: “People who want to do co-investment as a strategy should build a team for this. LPs who have multiple co-investments and have a team who manage these actively will continue to work.”

On the other hand, Collombin explains that LPs who opt for standalone co-investments and do not have a dedicated team will not succeed in a downturn.

Overall, however, “The pipeline is robust,” Espinal says. “We are seeing good quality companies that are asset light. The filtering of companies that we’re looking at has certainly narrowed in terms of focusing on good companies that are resilient and will come out of this crisis stronger.”

Q&A

REACH CAPITAL

Co-founders William Barrett and Jean Philippe Boige

Reach Capital's co-founders discuss the fundraising climate, the changing role of placement agents and if there is a place for new private equity managers.

By Talya Misiri

What did the fundraising market look like pre-Covid-19?

William Barrett: Pre-covid we were at an all time high, with huge allocations from LPs. I think it was the peak of the market in general for alternatives. We were also seeing great improvements on big private market platforms, in Europe including Ardian, IdInvest, Eurazeo and Tikehau. These managers were launching new strategies and gathering a lot of new capital. A lot of new groups were also launching and spinning off. It was a super exciting market!

Jean Phillippe Boige: For the 5th year in a row in 2019, we were on track to surpass \$500bn in funds raised. LP appetite for PE was strong, including for new and niche managers. But, we also started to see a flight to quality in the type of assets GPs were buying, expecting some sort of a downturn. On the LP side, the same selection bias was observed with a run on brand names.

What is the market like now? Has there been a significant change or is fundraising activity continuing?

Boige: Roughly two thirds of LPs we are now talking to, who are mostly based in North America and Europe, have already marked their 2020 allocations. Now, it's very likely that we will only see activity among LPs who started their due diligence (DD) pre-Covid, and there will probably be a priority for re-ups as DD will be much easier.

Barrett: I agree, the main change is that for new teams that are building their LP networks now, it's going to be a bit tough. For more established GPs, the assessment of the existing LP base will require more insights. In this context of rising doubts about LPs' deployment capacity, advisors will be even more needed than before.



Has the pandemic changed the role of placement agents and how you navigate between GPs and LPs?

Barrett: Yes, both LPs and GPs are coming to us a lot more. We had to rework fundraising timetables with our clients. Then, we advised them a lot on their communication to their LPs, their prospects and what was happening in the portfolio.

Boige: What was striking to me was that we got several calls from LPs who were interested in receiving our weekly barometer, in order to understand what is happening among GPs and LPs globally. We are not worried about the appetite for the asset class and the role of placement agents in this economy is certainly going to be reinforced.

How has Covid-19 impacted LP/GP communications?

Boige: I'm quite impressed with how both LPs and GPs have adapted to this

current situation in terms of communication. I wouldn't say that the tools are changing, but I would say that now that we have to communicate remotely, the nature of the message and the way it is processed is probably going to highlight the winners and the losers in the industry. The existing tools have created a dialogue between GPs and LPs that is probably more transparent.

In what ways has LPs' due diligence of GPs changed since the outbreak of the pandemic?

Barrett: The first thing is that they have less time pressure from GPs to close rapidly and are quite happy with having more time to do some deskwork.

Something that was already emerging in 2019 is that LPs were looking to understand GPs' track record during downturns or crises. Now it's becoming LPs' first question. GPs that have over 10-15 years' experience are great value now. In

general, super experienced teams will be a preferred choice for LPs.

If there are any firms brave enough to launch a fund now, do they stand a chance?

Boige: My quick answer is yes, if they are targeting a niche that is not already exploited by an existing GP. They would need to have at least some of these features: some time, a several cycles track record, a specific niche and either some experience in fundraising or a single bedrock LP. If you're looking to build new relationships now and expect to cash in these leads over the next 6-9 months, we think that will be impossible. Or you have to be extraordinarily well prepped in pre-marketing. Therefore the role of the agent becomes more important.

What will be maintained when it comes to fundraising post-covid?

Barrett: Personally I hope that we will travel a bit less. Before Covid, even if you had a day with a couple of meetings in Northern Europe, you would travel around for these or cross the Atlantic for a roadshow. I hope going forward that we will do the first round of meetings virtually and if the LP wants to do a deeper dive into the GP, then we will travel. I hope most people have discovered that you can at least do prep work over a vc and 80% of DD can be done remotely.

The big question is what will happen to events. A lot of GPs depended on these to meet LPs and to create new contacts. So, if you want to meet new LPs and you take out the opportunities that SuperReturn, SuperInvestor and other big events provide, how will you do this? My quick answer is placement agents, but how will you regain or build relationships that you'd meet in the corridor or at a drinks reception of these events. I'm not sure when we'll be able to do that again. ●

GP WORKSHOP

How to select fund domiciles

Zac Williams, director at Monument Group and *Ed Kingsbury*, funds partner at CMS discuss what factors GPs must consider to find the best fund jurisdiction.



Zac Williams, Monument Group, director

Where to start? When it comes to establishing fund vehicles, the first decision is where to start. The choice of domicile needs to weigh your interests with those of your prospective investors and, increasingly, the employees or customers of portfolio companies. The ideal jurisdiction will minimise extraneous costs and regulatory burden, while presenting a recognisable, simple and transparent structure that offers certainty to you and your investors. With the UK's imminent departure from the EU casting into doubt the nation's future in the eyes of the AIFMD, this last point is particularly relevant.

The Brexit factor

The UK has long been the obvious on-shore solution for most British firms, but in recent years many have been looking at alternate options. Luxembourg, one of the EU's first members, stands to gain from the union's first departee. The Grand Duchy offers fund vehicles with tax transparency, similar to the Anglo-Saxon LP structure, as well as relative regulatory flexibility, encouraging managers to establish physical presences and register AIFMs there. This enables managers to obtain a MiFID passport or appoint a third party MiFID-licensed placement agent to market throughout the EU post-Brexit.

The Channel Islands are also a draw and for good reason – they offer cost-effective, stable and well-regulated jurisdictions with excellent service provider ecosystems. These do come at a price though, since a small but growing cohort of European LPs are turning away from the well-established island jurisdictions. While we hope for third-country passports into the EU, the national private placement regime agreements offer a well-travelled route from the Channel Islands.

Finally, Brexit will likely enhance competition for the future business of UK PE managers. A number of relatively nascent jurisdictions are in the process of creating structures and adopting regulations that may hold promise, particularly for smaller managers looking for an on-shore EU structure without the Luxembourg price tag. Ultimately where you choose to locate your fund will likely be dictated largely by those of your investors. When many of us have spent the best part of 10 weeks in our own homes, GPs should give careful consideration to where their fund calls home for the next 10 years.



Ed Kingsbury, CMS, funds partner

The common fund jurisdictions remain Luxembourg, Cayman, Delaware, Ireland, the Channel Islands and the UK. All offer fiscally transparent fund vehicles, mature legal systems and service provider eco-systems. Following the herd generally saves cost, time and shoe leather.

Marketing

The AIFMD and EuVECA passports are attractive for managers targeting EU investors in EU member states with restricted private placement regimes, or high net worth investors. Large non-EU managers often establish Luxembourg or Irish AIFMD compliant parallel funds to market to EU institutions while shielding other parallel funds from AIFMD obligations.

Taxing questions

Possible future denial of treaty benefits under the BEPS initiative encourages co-locating funds and SPVs in countries with attractive dual tax treaties, such as Luxembourg. The UK has become a less attractive jurisdiction for funds due to the fiscal treatment of management fees, carry and corporate losses – though the UK government recently announced reviews into the UK's competitiveness as a fund jurisdiction.

For some investors, full-scope AIFMD regulation is a kite mark, others are incentivised by EU regulatory capital requirements or domestic legislation, such as German insurance companies. Others have a strong preference for EU funds, such as the EIF and BBB.

Covid-related restrictions are changing the operating model of hosted offshore funds and managers' quarterly flights. Other considerations include time zones, service provider culture and language, fog and hurricanes.

The inclusion of Cayman as a non-cooperative country by the EU resulted in greater scrutiny of Cayman funds by EU investors including pension funds. For some, receiving distributions from perceived offshore havens is likely to increase the chance of a tax audit.

Ongoing uncertainty around Brexit, equivalence, and access rights makes Luxembourg and Ireland attractive for UK GPs who target EU investors or investments. UK regulatory divergence from the EU towards a regulation-lite "Singapore on Thames" advocated by Brexiteers is possible.

QUOTES

On the investment strategy, certain domiciles double tax treaties provide a more tax efficient investment making structure. Speed of execution for investments are always very important and the right fund domicile can allow for this to be optimal. There's also the issue of service provider selection and having a top tier set of providers (e.g. lawyers, auditors, and administrators) to allow a GP to launch and operate their fund seamlessly. Existing relationships and familiarity with available providers can also influence choice. There's an ongoing increase in fund domiciles such as Singapore's newly enacted fund structure. It means GPs have more options to choose from; therefore, it's imperative that they consider several points, as part of the decision-making process, including tax neutrality, speed to market and issues concerning the pre-marketing phase.

CHITRA BASKAR,

global head of funds, Intertrust

The investors are defensive by focusing on core relations with high re ups and looking for the best safe pair of hands who will protect their capital. An advisor can guide the GPs through the global investor landscape efficiently and navigate them through the discussions and processes to fit into these portfolios. The massive amount of materials can be managed. Differentiation and communication are critical to close, with our deep knowledge and experience we can make it happen.

MOUNIR GUEN,

CEO, MVision

Domiciles weathering the pandemic today are those that prepared for it yesterday. They are nations which put into place crisis protection measures and continuity plans in the aftermath of 2008, and have applied lessons learned to great effect during the pandemic.

A strong fund administrator is a critical piece to the puzzle. Of course they need to have a company culture and network which continues to thrive from home, but more importantly, they must have the tools and expertise necessary to help fund managers.

FABRICE MAS,

Head of Luxembourg, PERA

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COMMENT

Change the ESG course or face the consequences

Wellershoff & Partners head of private markets Dr. Cyril Demaria suggests that ESG and PE principles can be fundamentally positioned against one another and explains how this can be overcome.

Which investments get cheered when promising higher costs, higher risk, comparatively lower financial returns and ill-defined and fuzzy non-financial returns?

You would be forgiven if you thought, European sovereign bonds. The actual answer is, Environmental, Social and Governance (ESG) investments.

Reduced performance

The public equity markets show us that sustainability indexes underperform the mainstream and have a higher risk.

The Dow Jones Sustainability World grew at a compound annual rate of 0.38 per cent from its launch in 1999 to 2019. Its maximum drawdown was 42.4 per cent. This compares to 0.59 and 40.7 per cent delivered by the DJIA. The Euro STOXX Sustainability Index performed at 0.18 and 47 per cent from 1998 to 2019, while the STOXX 600 achieved 0.26 CAGR and a 41 per cent drawdown.

An oft-cited argument is that ESG value (“positive externalities”) cannot be captured by indexes. This is unconvincing. It is true that the ESG concept lacks a clear and generally agreed upon definition, or common operational approaches. Yet rigorous analysis is possible using the “cradle to cradle” approach.

Described by William McDonough and Michael Braungart, this approach requires the adoption of a holistic economic, industrial and social framework that seeks to create systems that are efficient and waste-free.

A “cradle to cradle” analysis provides certainty that only necessary resources were used optimally to reach a specific goal. This circular approach can solve the apparent contradictions created by sustainable investment goals.



The problem is that we cannot measure ESG because there are no agreed standards...As a result, ESG in private equity is essentially a box-ticking exercise.

Governance and performance

The reality is that ESG costs money and goes against PE's focus on the maximisation of financial performance. Jensen famously made the case for the superiority of the LBO ownership model. LBO managers use powerful governance frameworks to steer their investments. However, governance is ruthlessly efficient because of its aim: extracting cash-flows from a business to refund the debt contracted to acquire it. Reconciling this with a cradle to cradle approach is difficult.

A ‘triple bottom line’ approach decreases financial returns in favour of environmental and/or social goals. The problem is that we cannot measure the latter because there are no agreed standards. The value of the

trade-off cannot be assessed. As a result, ESG in private equity is essentially a box-ticking exercise.

Socially criticisable

The Toys ‘R Us debacle shows that the triple bottom line approach cannot withstand a dividend recap. In this case, financial returns superseded any social concern – until a public outcry forced investors to support employees laid off by their profitable company. The package remains an isolated event and was a missed opportunity for the industry to set new standards in employee support.

The risk is that legislators eventually will take things into their own hands. Though the decision was reversed in appeal, judges already took action in the USA (Sun Capital III v New England Teamsters).

The good news is that the process of PE due diligence provides an opportunity to apply a fully formed, circular ESG analysis. With a cradle to cradle perspective, the PE industry can address the full scale of the environmental and social consequences of its investments.

The mid-market opportunity

Growth capital and small- and mid-market buyout investment strategies provide the best field to experiment with a cradle to cradle approach and

define best practices. Multiple, cumulative characteristics justify this assertion. First, portfolio companies are stable, profitable and growing. They have the size, human and financial resources to develop ESG plans.

Second, the time-horizon (four to five years) is long enough to implement a cradle-to-cradle review and strategy. Although financial returns are the driving factor for investors, a dividend recap is unlikely to smash ESG commitments.

Third, structuring is less aggressive than in large buyouts. Debt providers are real partners, as they hold on to these debts instead of packaging and reselling them.

An ESG plan is a corporate political and cultural endeavour. In the mid-market, investors have intimate knowledge of their companies. ESG assessments and plans can have continuity, including in subsequent buyouts, as the executives stay on. One could even imagine each successive LBO corresponding to an ESG step: the first LBO is the assessment, the second is the set-up of metrics, the third is the definition of a vision, the fourth is the implementation.

Ultimately, the majority of exits are through trade sales. The best cradle to cradle practices could spill over, especially since the buyer of today might be the LBO target of tomorrow.

Guiding principles

PE's first aim should be the empowerment of citizens with effective and durable choices (as they themselves determine).

PE should shoulder the unintended consequences of its actions. Employees of portfolio companies should be treated with care. Ultimately PE managers should systematically and consistently produce demonstrable and convincing sustainability assessments to both their LPs and their stakeholders. ●





STABILITY IN A STORM

Guernsey's response to the Covid-19 pandemic and the capacity of its financial services industry to continue operating through lockdown underscored its value as a private equity fund jurisdiction.



At the end of May, Guernsey became one of the first jurisdictions in the world to declare itself Covid-19 free.

All Guernsey's schools have subsequently reopened, as have its restaurants, gyms and cinemas. Financial services professionals are back in their offices too. It is very much back to business as usual on the Island, which has emerged from its lockdown, which commenced on 24 March, energised and intact.

Countries around the world have looked to Guernsey's Covid-19 response as a best practice case study and the Island's director of public health, Dr Nicola Brink, has received widespread praise for her planning and decision making.

Before Guernsey recorded its first confirmed case of Coronavirus on 9 March, the Island already had fully-fledged contact tracing and testing system in place and through the period of lockdown has been able to secure Covid-19 test results within 24 hours, and commence contact tracing within an hour of test results coming in. The Island also recognised loss of taste and smell as early as April. The approach has delivered exceptional results, with Guernsey's number of Covid cases and deaths among the lowest per capita in the world.

"The active management of the situation and the coordination between the government and scientists has been remarkable. The fact that we have been able to resume business as normal in June is extraordinary. The jurisdiction's response is the envy of many," says Carey Olsen partner Ben Morgan.

Firm foundations

The effectiveness of Guernsey's public health response to managing the pandemic has provided its crucial financial services industry with a solid base to continue operating from.

"The government and public health authorities have done an excellent job. Guernsey has been decisive throughout and there was a clear strategy in place from the outset. As a financial services business we knew where we stood and what we had to do," JTC's Guernsey managing director James Tracey says.

Official private equity fund figures for the first half of the year are still in compilation, but private equity fund lawyers and administrators believe that despite the disruption to financial markets caused by the coronavirus, private equity fund launches are on track to match the record levels achieved a year ago thanks to the Island's resilience.

So far in 2020, respected European private equity managers, including German-based Deutsche Beteiligungs (DBAG) and Switzerland's Lakestar, have launched new vehicles through Guernsey.

Carey Olsen and Aztec Group advised DBAG as the firm secured commitments totalling €1.1bn for its Fund VIII, while Aztec Group and law firm Ferbrache & Farrell supported Lakestar on a double fundraise. The

Swiss-based manager, which has backed the likes of: "Facebook, Skype, Spotify and Revolut over the years, secured €252m for its Lakestar III early stage vehicle and €426m for its growth vehicle, Lakestar Growth I.

"Guernsey is located on a piece of granite, and in many ways that has served as a metaphor for the resilience of the Island's financial services industry through the last few months of global Covid-19 uncertainty," says Guernsey Finance deputy chief executive Andy Sloan.

Advisers do acknowledge that work on many of the funds that have closed and used the Island would have begun prior to lockdown. The pipeline for the second half of the year will have to be built up again as

lockdowns around the world are gradually eased, but the fact that the Guernsey service providers have been able to support ongoing fundraisings and keep processes on track through a period of almost unprecedented uncertainty is a testament to strength and quality of the island's financial services provision.

"If you had told me that at the start of the year that in March we would send all our people home and maintain service levels, I would have been very sceptical, but I am delighted to be able to say that we have all risen to the challenge," says Carey Olsen's Ben Morgan. "The IT solutions and disaster recovery processes have been built into systems and businesses. The funds industry has coped well." Tracey adds: "I



“The active management of the situation and the coordination between the government and scientists has been remarkable. The fact that we have been able to resume business as normal in June is extraordinary. The jurisdiction’s response is the envy of many.”

Ben Morgan, Carey Olsen



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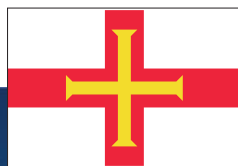
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“Guernsey’s government continues to be very supportive of the funds industry and recognises the importance that private equity plays in the longevity of Guernsey as a financial centre.”

Craig Cordle, Ogier

chair the Guernsey Investment Fund Association’s (GIFA) Fund Administration sub-committee and have observed first-hand how well the community has come through this. Of course, it is good to be back in the office, where you can walk the floors and check in with your teams directly, but during lockdown people were able to get up-and-running with home working without much impact at all.”

State support

Guernsey’s government and regulators have also played their part in recognising the challenges posed by Covid-19 to all businesses, including those in financial services, and have responded with support and flexibility.

The Island has always prided itself on the pragmatism of its regulatory framework –its private investment fund (PIF) regime, for example, the regulator to approve a new fund within 24 hours and the manager-led product (MLP) regime, allows managers that are already regulated to roll out multiple funds.

The value of this approach has come to the fore once again through the course of the pandemic. As the Bailiwick went into lockdown, the Guernsey Financial Services Commission (GFSC) made a number of concessions to give the industry breathing room as businesses adjusted to remote working.

Measures included allowing returns to the GFSC that required auditing to be submitted unaudited, while returns for insurers, insurance intermediaries and managers, investment firms and funds due by the end of April 2020 could be pushed out by a month.

The Guernsey government, meanwhile, working alongside Jersey and the Isle of Man, has joined a loan guarantee scheme that will see participating banks, including Barclays, HSBC, Lloyds, NatWest and RBSI, receive guarantees for 80 per cent of lending. In aggregate this will provide £140m (€157m) of new lending across the Crown Dependencies. The schemes are designed to provide increased access to liquidity for viable businesses that may suffer solvency issues as a

result of the Covid-19 pandemic.

Guernsey Finance, meanwhile, has supported the funds industry by hosting Guernsey’s first online Guernsey Funds Forum and the Sustainable Finance Week.

“Guernsey government continues to be very supportive of the funds industry and recognises the importance that private equity plays in the longevity of Guernsey as a financial centre,” Craig Cordle, a partner at law firm Ogier based in Guernsey, says. “The Guernsey funds industry is fortunate in that it has been business as normal, which means government continues to work with industry and the Guernsey Financial Services Commission to look forward to future developments to our funds offering as we look beyond the pandemic.”

Cordle adds that the funds industry has also pulled together to support its community, with the Guernsey Society of Chartered and Certified Accountants (the GCSSA) and the Guernsey International Business Association, for example, have worked with the tax authorities to give comfort on the application and interpretation of Guernsey’s substance regime through the pandemic.

Front foot

The Guernsey industry hasn’t only been on the defensive through the pandemic, it has continued to focus on its long-term objectives of providing a flexible jurisdiction for fund managers and expanding its ESG and Green Finance credentials.

In the second week of June, for example, the Island announced the launch of a fast-track system for migrations of investment funds and their managers into the Island. This will allow managers who want to relocate to Guernsey because it is a jurisdiction white-

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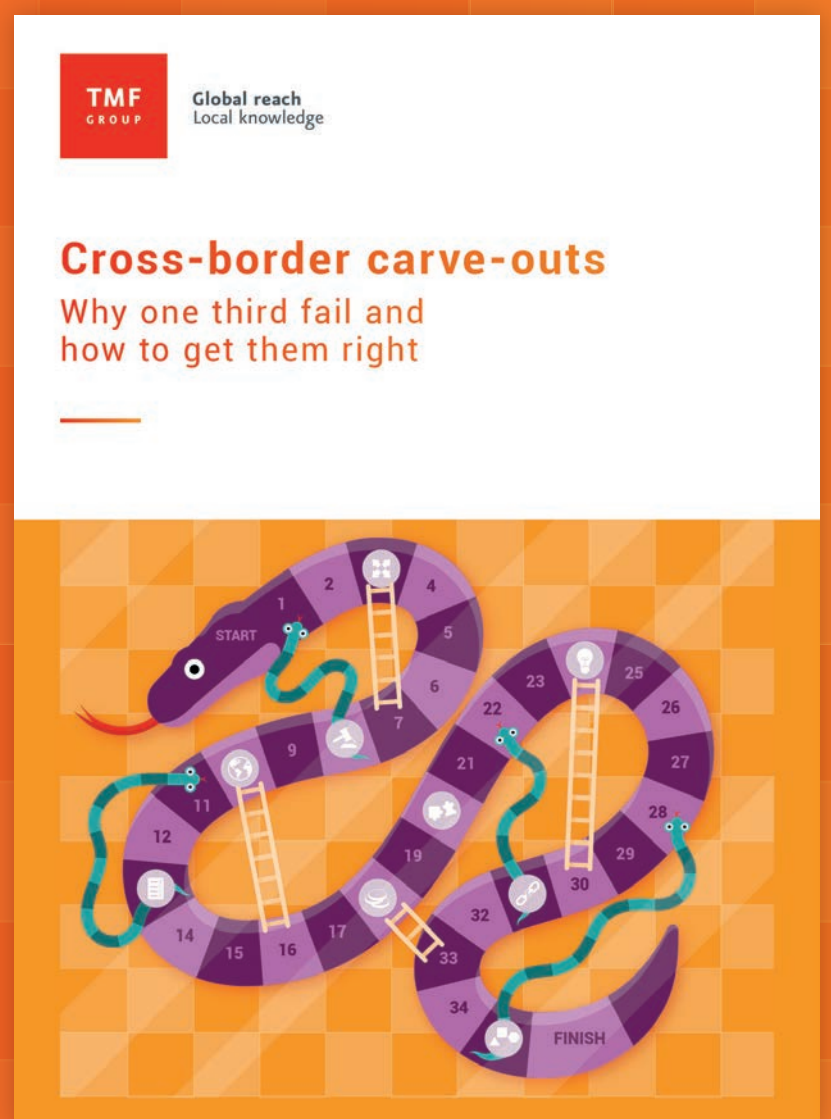


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listed by the European Union and the OECD to do so expeditiously.

The new regime will make it simpler for managers of overseas collective investment schemes to apply for a Guernsey licence through a migration and licensing process within a 10-day review period.

The jurisdiction has also continued to progress in building out its green and ESG finance initiatives. After the successful launch of the Guernsey Green Fund scheme in 2018, the Island released its first voluntary green private equity principles. The principles have been compiled to support private equity managers and investors to navigate best practice when it comes to reporting and setting policy on the increasingly important topics of ESG and climate change, among other social and environmental business issues (see box).

“What is clear to me is that with continuing developments such as the fast-track licensing of managers of overseas collective investment schemes and Guernsey’s Green Fund regime, Guernsey remains a very attractive destination for private equity managers looking to launch new funds or migrate their management of funds to Guernsey,” Cordle says.

Moving forward

Now that lockdown has been lifted in Guernsey (although overseas visitors are still required to quarantine on arrival for now), thoughts are turning to the future and trying to understand how Covid-19 could impact the way the private equity funds industry changes for the long-term.

“Businesses across the financial services industry, in all jurisdictions, are going to be operating under a new normal. Many will make do with less international travel, working practices will shift after successfully implementing homeworking and office space requirements pre- and post-lockdown will change too,” Carey Olsen’s Morgan says.

JTC’s Tracey adds that the way the industry networks is also in transition, citing experiences from the virtual hosting of the Funds Forum.

MONEY IS GREEN

Depending who you ask there is between US\$70trn and US\$90trn of capital looking for investments that fulfil green credentials. Guernsey has been one of the first fund jurisdictions to identify the huge growth in appetite for environmentally and socially responsible investment products, and has led the way when it comes to supporting this activity.

First came the Guernsey Green Fund, which was launched in 2018.

The Green Fund requires at least 75 per cent of a fund’s investments to go into assets, projects and companies that have a positive environmental impact on the planet. Managers have to demonstrate compliance with internationally-recognised criteria that are verified by a third-party and overlaid with regulatory overview.

The scheme has proven especially popular, with assets worth around £4bn (€4.5bn) flowing into Guernsey Green Fund vehicles within a year of launch.

Earlier this month the Island further burnished its green offering with the publication of the its first voluntary green private equity principles (GPP). The principles are designed to help managers and investors navigate the myriad green and ESG reporting standards and guidance that have mushroomed as appetite for ethical investment guidance has accelerated.

“Green and ESG investing can be a real acronym soup. We started work on the green private equity principles a year ago with the aim of helping managers to set their ESG priorities and prepare the industry for any future reporting and regulatory requirements that may come into force,” says Guernsey Finance deputy chief executive Andy Sloan.

The principles, which have received strong support from former BVCA director general Tim Hames among others, are based on the framework of the Task Force on Climate-related Financial Disclosures (TCFD), which was created by the private sector and reports to the G20.

Guidance outlined in the GPP includes points on board supervision of climate risk assessment at every stage of the investment cycle; the alignment of green financial investments with climate change mitigation; the reporting of data measuring climate change initiatives and policies for educating staff and underlying portfolio companies on climate change mitigation.

“Private equity needs to think anew in the light of the crisis,” Hames writes in the report’s forward. “This document is the right place to start.”

“We saw the Funds Forum move online instead of being held as a physical event in London, and that brought in a much broader audience of up-and-coming executives who wouldn’t have come otherwise because of the travel, time and cost. The way people make connections and have conversations will change because of this,” Tracey says.

As for the private equity industry the Guernsey funds infrastructure supports, opportunity will emerge for managers that can see themselves safely through to the other side of the pandemic.

Speaking at the recent Guernsey Funds Forum, private equity veteran and chair of the deal advisory and stock market brokerage Finncap, Jon Moulton, said that while deal activity would inevitably decline through the course of 2020, the large sums of capital yet to be deployed by managers would see an M&A rebound.

“People don’t want to sell in a world where they perceive values have just gone down, and when nobody believes they’ll stay there. It takes quite a while for people to adjust to the new level. Deals that will happen definitely will decline. There will be less sales-side activity, probably fewer IPOs, but there will be exceptions,” Moulton said on a Funds Forum webinar. “There is an immense wall of money in private funds and they will undoubtedly switch on earlier. There’s lot of big buyout capital available, which will drive deals I suspect quite quickly. I expect any reduction in deal activity to be quite short-lived.”

Guernsey Finance’s Sloan acknowledges that private equity will face choppy times in the coming months, but also anticipates a deal activity rebound.

“In 2019 private equity activity had to pause and restart when we were in the depths of Brexit. That will probably be the pattern for the rest of 2020 too, but the market conditions post-Covid will be supportive of investors who have patient capital and can see value,” Sloan says. ●

Q&A

CHRIS CORCORAN

Director - Fund Services, JTC Guernsey

JTC Guernsey's Chris Corcoran outlines the benefits of Guernsey as a fund domicile and how it is reacting to Covid-19 and Brexit.

By Talya Misiri

What are the key benefits of domiciling a PE fund in Guernsey?

Guernsey has been a leading domiciliation of choice for UK and European private equity funds for decades and has specialist experience and deep expertise within this arena. The island offers a sound regulatory environment, sophisticated corporate legislation, and political and economic stability, which is why Guernsey is a go-to jurisdiction for private equity. Also, its physical connections to major financial centres, (particularly London), and an independent, stable and autonomous government that operates under common law, all contribute to making it an attractive fund centre.

Private equity funds domiciled or administered in Guernsey have a NAV of more than £120bn and the island is also home to other vehicles, including the Guernsey Green Fund regime.

Guernsey is quick to adapt to new developments within the global fund space and good examples of this would be ESG, FinTech and digital sectors. At JTC, we administer a wide range of funds and have once again been recognised in the Monterey Guernsey Fund Report as the third largest administrator in Guernsey by number of funds.

What differentiates Guernsey from Luxembourg as a fund domicile? What are GPs' reasons for opting for the Channel Islands?

Clearly, choice of domicile is dependent on managers' and investors' preferences. However Guernsey offers a proven, cost-effective and accelerated way to establish investment structures. Whilst six months may be the norm elsewhere, Guernsey offers establishment timeframes of six weeks, (or even three-day authorisations for private funds).



Guernsey enjoys the effective National Private Placement Regime, which allows access to investors in key European markets, and can be used without the need for a more expensive European Passport.

What is the appeal of being a "White Listed" jurisdiction?

Guernsey has been on the OECD's 'White List' of approved jurisdictions since 2009 and has signed up to a series of tax information exchange agreements (TIEAs) to remain. Our status was reaffirmed in 2019 when Guernsey Economic Substance legislation met the "white listing" requirements of the OECD and EU. Guernsey Financial Services code of corporate governance and regulations has, for many years, operated within a Guernsey framework that was already similar to the best practice guidelines under Tax Substance, therefore, we have not had material changes on how we operate for business.

In terms of appeal, focusing on

limited partnerships as an example, they want to maximise returns, without exposing themselves to reputational risk by association. Guernsey offers a top-tier regulatory framework, which is uniquely delivered using the National Private Placement Regime to access the EU. This provides accelerated access to markets and long term cost savings.

Guernsey has a reputation as a green haven, with its Guernsey Green Fund regime. Has the increased focus on ESG and impact investing directed more funds to select Guernsey as a sustainable fund domicile?

There has certainly been an uptick of interest in our green credentials and at the end of 2019, Guernsey Green Funds held a total NAV of £2.7bn. The Guernsey Green Fund was launched in July 2018 and is the first regulated Green Fund product of its kind in the world. This, combined with the

International Stock Exchange's green market segment, is another way that Guernsey is ahead of the game and has increased its support for ESG investing. These initiatives continue to be promoted, most recently through the Sustainable Finance Week events in early June. Guernsey Green Finance has also developed a set of best practice green and sustainable principles for the private equity industry, including thorough climate change risk considerations and reporting of climate change mitigation achievements.

How will Guernsey, as a fund domicile, develop following the Covid-19 crisis and Brexit?

Technology is one of our greatest assets throughout this period and will absolutely revolutionise the way we work as we make our way out of the pandemic. We have the ability to communicate swiftly whilst in the office and at home.

Without doubt, Guernsey has certainly proven its strength through the Covid-19 crisis with its strong Government and Public Health and Social Services team. Their world-leading decisive, effective and clear leadership throughout the last four months has proven invaluable to not only the local residents' safety, but also to our businesses. The fact that Guernsey will be one of the first locations in Europe to exit any form of lockdown is a testament to the calibre of Government and of the people here in Guernsey.

On Brexit, Guernsey has always been in a strong position, being a Crown Dependency, which is neither part of the UK or the EU, and with positive ties to both. The actual impact of Brexit on Guernsey and the Channel Islands remains to be seen. I do believe, however, Guernsey will remain as it has always been – a highly experienced and adaptable leading finance centre, which has its doors firmly open for business. ●

Organic Growth

Often an overlooked aspect of private equity value creation, organic growth is essential for materially improving companies' professionalism, geographical reach and product and service offering. Real Deals presents some examples of organic growth success. Simon Thompson reports.



Recover Nordic AGILITAS

Martin Calderbank, managing partner

Recover Nordic is a provider of environmental emergency response and damage control services, serving insurance companies and municipalities, as well as industrial and commercial clients. The company's fundamental purpose is to prevent and reduce the costs associated with extreme events such as fires and floods.

We first backed the business in 2013, having identified the opportunity to undertake a complex carve-out of ISS's damage control businesses across Norway, Denmark and Finland and to create from them the Nordic market leader. We then helped to bring about a step-change in the company's growth via an ambitious transformation plan that was aligned with the company's positive purpose, thereby delivering strong shareholder value.

ORGANIC EXPANSION

Agilitas spent significant time and exploited past experience in similar emergency response markets to truly understand the microeconomics of the Nordic damage control industry. We weighed the importance of scale and the potential for consolidation around a quality leader. We identified the areas where the organisation needed to be reinforced. By developing a deep understanding of the subsector in which Recover Nordic operates, we were able to work with management to develop a detailed and actionable transformation plan to drive dramatic organic growth and build scale.

One of the first steps was to help

consolidate and professionalise the business. To support this, we built a new group management team. On an operational level, we helped with the implementation of numerous functional improvements, such as process automation, working capital enhancement, optimisation of the branch networks and increasing staff responsiveness. We also introduced new KPIs and strategic management approaches. As damage control quality and response time are key drivers of incident cost, and thus of customer purchase decisions, these changes not only improved profitability but also enhanced revenue growth. We were thus able to establish a virtuous cycle in which scale led to improved quality and response times. With Agilitas's backing, Recover Nordic was able to target new customer segments and new service areas. For example, the company expanded into the environmental services sector, providing waste removal, industrial cleaning and adjacent services to the public sector, industry and construction companies.

OUTCOMES

Agilitas worked with management to transform Recovery Nordic into the undisputed Nordic market leader in emergency damage control, quadrupling the company's profits and more than doubling the number of employees in the process. The company's impressive and sustainable organic growth averaged 10 per cent per year during Agilitas's ownership.

x4
Quadrupled
Recovery
Nordic's profits.

x2
Doubled the
number of
employees.

10%
Company growth
averaged 10 per
cent per year
during Agilitas's
ownership.

Evernex CARLYLE

*Vladimir Lasocki, managing director and co-head of
Carlyle Europe Technology Partners*

Evernex is a French-headquartered company, which specialises in the maintenance of critical IT infrastructure globally. The company offers a comprehensive range of services including maintenance for multi-vendor hardware, spare parts as a service, recycling, IT hardware rental, and financial solutions. The Carlyle Group acquired Evernex, through Carlyle Europe Technology Partners (CETP) III, in 2015.

ORGANIC VALUE CREATION

While CETP's growth strategies for portfolio companies typically includes a range of value creation activities, organic growth is a significant area of focus. Specifically, the expansion of portfolio companies' product and service offerings is enhanced to diversify and grow revenue streams.

We find this is best achieved with companies operating in faster-growing, innovative segments of the economy that benefit from best-in-class management and have a foundation for international expansion.

In 2015, Carlyle identified that Evernex, or 'Cap Vert' as it was known at the time, was well-positioned technically to benefit from the attractive and growing, multi-billion critical IT infrastructure maintenance market. The market opportunity was largely due to positive momentum for third-party maintenance providers, as they took market share from original

equipment manufacturers. It created an obvious opportunity for Evernex to become a consolidated platform in a fragmented market. Throughout its ownership, Carlyle supported a strategic repositioning of the business to become a differentiated leader in the space.

REBRANDING AND REPOSITIONING

The approach focused on the IT maintenance segment of the business. A new group identity and brand of 'Evernex' was created to enhance this repositioning. Alongside management, we undertook an international roll-out, via the opening of local subsidiaries and deployment for forward stock locations and enhanced Evernex's status as one of the only global players in the industry. New positions were created and new talent was recruited. Organisational scale was likewise driven through investment in systems and processes.

Alongside international expansion, Evernex's repositioning to a third-party maintenance business, delivered a significant growth in net sales. These organic growth strategies alone allowed the company to close to double the business between 2015 to 2019. The company's international presence grew from 110 countries and 17 offices to 160 countries with 33 offices over the same period. The number of full time employees grew from c.230 at entry to c.550 people at exit.

X2
Organic growth
strategies
almost doubled
business
between 2015 to
2019.

160
The company's
international
presence grew
from 110
countries and 17
offices to 160
countries with
33 offices.

550
The number of
full time
employees grew
from c.230 at
entry to c.550
people at exit.





Patent Co

ABRIS CAPITAL

Milorad Andjelic, partner

Patent Co produces a range of high-quality and patented animal feeds, protein concentrates and feed additives, which are exported to over 25 countries worldwide. Abris Capital invested in the Central Europe animal nutrition solutions provider at the end of 2015, backing the company to capitalise on the animal protein consumption megatrend. This has largely been driven by global population growth and the rise in disposable income, especially in developing markets. To tap into this demand, Abris has helped the company to implement an array of different organic growth strategies.

RE-ALIGNING COMPANY STRATEGY

We first worked to evolve Patent Co's company strategy, from being a producer of animal feed, to a full-service animal nutrition solutions provider. Organic growth is only possible with strong, dynamic, and well-motivated management teams. Identifying the best managers and aligning their long-term interests is a key factor in our approach to value creation. Therefore, we set about strengthening the company's top and mid-management teams.

Enhancement of the team has allowed Patent Co to scale revenues and work towards generating a competitive advantage of offering not only feed products, but also nutrition advice and service to farmers. At the same time, meeting the growing market demand for products in this area required scaling the asset base. We built two state-of-the-art factories to give the company a threefold

production capacity increase. The new factories now allow the company to produce higher quality products more efficiently.

As with almost all large capital expenditure programmes, there are often complications, and in this case we experienced some challenges related to the timely execution of the organic growth strategy. Nevertheless thanks to the management and fund's determination, these projects were delayed only by a few months.

In the same vein, we made major investments to expand the company's international and regional distribution platforms. Today, the company and its products have a far wider geographic reach.

NEW MARKETS

To push organic growth further, Patent Co has recycled profits back into the business to invest in research and development capabilities, to help the business innovate and further develop existing proprietary product categories. R&D has also allowed the firm to innovate and serve different market segments, largely with new varieties of products to address different customer needs.

While Covid-19 has impacted so many businesses across the globe, the impact for Patent Co has been positive - demand grew significantly due to the defensive nature of its products. However, Patent Co still faced a number of challenges as a result, particularly within the supply chain. Yet, the company has been able to demonstrate a huge amount of creativity and adaptability to optimise its responses.

2.5x

Abris increased Patent Co revenues by 2.5 times in 4 years.

25%

Abris increased the workforce by approximately 25 per cent.

DoveVivo

TIKEHAU CAPITAL

Roberto Quagliuolo, head of PE Italy

DoveVivo is a leading co-living platform in Europe. It provides medium to long term co-living solutions for students and young professionals that are looking for an all inclusive room in a shared apartment, or in a student housing building. While doing that, DoveVivo provides a reliable and hassle-free solution to private and institutional landlords from whom it leases long term single apartments or entire buildings. Through its platform, the company takes care of everything for landlords, from renovation to the search for tenants.

MARKET CHALLENGES AND OPPORTUNITIES

DoveVivo benefits from a first mover advantage in a sector that is rapidly growing as a result of the positive macro trends on demand; more and more young people are living in major cities and looking for flexible and shared living solutions. On the supply side, there are very few professional players providing this type of service. The two biggest challenges for DoveVivo have been keeping the company's historical growth pace, which is nearly 40 per cent revenue CAGR over the last five years, while maintaining historical profitability levels. Another key organic challenge has been entering into new countries such as France and Spain.

In terms of implementing our organic growth strategy, we worked to enhance the operational platform to manage a much larger organisation

and provide value-added services to tenants and landlords in a digitally efficient way.

We also worked to continue to grow the company in Italy by increasing density in the existing Italian cities and entering into new, attractive Italian cities. We also worked to improve the sourcing of new private landlords to leasing apartments through our platform.

INTERNATIONAL EXPANSION

We gave a lot of support to the company for its international expansion by creating connections with the local community in France and Spain and supporting the selection of local personnel. This was done alongside establishing new relationships with international, institutional landlords interested in having part of their properties on DoveVivo's platform.

Organic growth strategies often work in concert with acquisitions. Our moves into Spain and France were both done organically and with some acquisitions. Given our plan to increase the size of DoveVivo by four to five times over the next 3-4 years, we are closely supporting the company in the hiring of new key managers in critical positions.

We invested in DoveVivo in July 2019 and in terms of impact since then, we have completed its entry into the French market, revenues have grown from €21m in 2018 to €45m expected in 2020 and DoveVivo rooms have doubled.

€45m

Grew revenues from €21m in 2018 to €45m expected in 2020.

x2

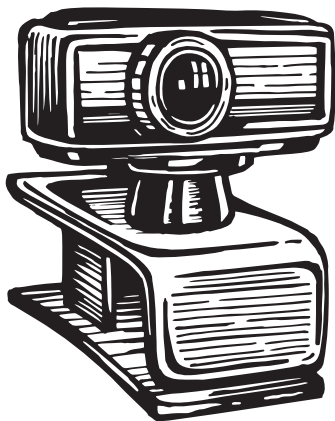
Doubled the amount of rooms on their platform.



PODCAST

ESG AND INVESTMENT COMMITTEE BOARDS

ESG is becoming increasingly important for private equity firms and their investors. In a recent *Real Deals* podcast hosted in association with JTC, a panel of experts discussed the reasons for ESG's growing influence and what this means for private equity investment committee boards.



ON THE PANE:

Marie Fitzpatrick,
senior director of fund services, JTC

Alison Hampton,
founder, Alma Verde Advisors

By Nicholas Neveling

E

Environmental, social and governance (ESG) factors have taken a central role in business decisions during the last decade. ESG's influence now extends to where investors are directing capital, how businesses interact with counterparties and how consumers behave and spend.

What, then, are the implications of ESG for investment committee boards? How should organisations report on ESG and what does that mean for how investment firms operate and make decisions?

JTC's Marie Fitzpatrick and Alison Hampton from Alma Verde Advisors sat down with *Real Deals* for a podcast where they shared their thoughts on how ESG has evolved and interfaces with the decisions private equity professionals are making day-to-day. Here are some of the highlights from the discussion:

Picking the right battles

Fitzpatrick said that in the funds industry ESG first started to come onto the radar as a serious topic around a

decade ago. The focus on ESG has come a long way since.

In 2013, Fitzpatrick noted, only 8 per cent of the private equity market had adopted an ESG strategy. Today, the absence of an ESG strategy would almost certainly see a manager missing out on potential capital commitments. The adoption of an ESG plan was therefore still a relatively new process for managers, and best practice was evolving all the time.

Fitzpatrick said that ESG was a broad subject and could be measured against innumerable standards and guidelines. Instead of trying to cover off every single ESG theme, however, managers would be better served by focusing on what was most important to their firms. This was the most effective way to build an ESG framework into a private equity house's day-to-day workings.

Fitzpatrick said that managers should approach ESG from three angles. Firstly, managers should "own their ESG plan" by identifying what was important to their team and adapting processes to reflect these values. The second factor to consider was to be clear on how to measure and report on ESG at fund level and include this in the Limited Partner Agreement (LPA). Finally, managers should be attentive to the ESG objectives of potential investors and reflect these requirements as much as possible, as this could determine whether an LP committed to a fund or not.

"For fund managers, it's a balance of not only their company values, but also the broader, long-term considerations of their stakeholders," Fitzpatrick said.

How to make ESG happen:

Hampton said GPs who had come to grips with ESG all displayed similar characteristics.

The "tone from the top" was essential. This started with setting up processes that enabled GPs to identify material issues and outline the business case for making change early on. Buy-in from deal teams was crucial.

"It's feeding it right the way in upfront... almost into the point of origination. It should inform how a GP looks at what they can do for a business. Private equity acquires businesses that have room for improvement. ESG is one of the key areas they can come in and make improvements," Hampton said, adding that ESG should also flow into the post-deal value creation plan too, and that effective GPs signal their ESG plans to management teams and portfolio companies early on.

Measurement of ESG was also central to effective ESG implementation. Fitzpatrick said that the private equity industry as a whole was yet to settle on a single framework. And, work by the UN and G20 put broad principles in place, but it was up to managers to interpret and apply these themes to their specific situations.

"ESG reporting is bespoke to the manager. It has to be set to where the manager has actually decided what it wants to report on and include. It could cover reduction in emissions and water use or job creation at portfolio company level," Fitzpatrick said, adding that there had been significant improvements in the collection of data and analysis to facilitate ESG reporting.

Where does the investment committee fit in?

Fitzpatrick said the investment

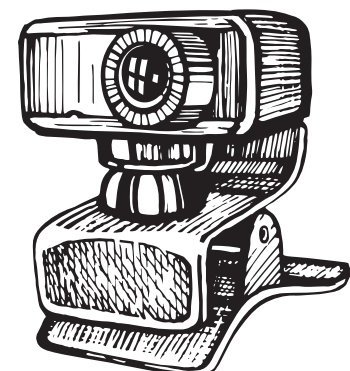
committee's role was one of leadership and decision-making, and ensuring that investments under consideration met the criteria laid out in the PPM and LPA.

"The people on the investment committee have to be committed to the ESG policy of the firm. The committee's role is to ensure that every deal meets all the investment criteria, including ESG," Fitzpatrick said, adding that ESG was no longer a "side thought" for investment committees.

For Hampton, the effective implementation of ESG by the investment committee and firm leadership required a combination of putting in place governance structures and policies in place for people to follow, as well as integration of those policies into culture and day-to-day business. This involved going right the way down into how the performance of individuals at a firm was measured and assessed.

"There is no point in putting a policy in place if it doesn't actually embed itself into the DNA of a firm, and starts to become business as usual," Hampton said. "There is no point in saying ESG is important if individuals are only measured on how many deals they do... It has to be fed into that performance assessment metric and viewed as a key competency for a deal professional."

● The podcast is live on realdeals.eu.com & other media players.





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Analysis

Widespread protests over *George Floyd*, the unarmed American black man killed by police, has sparked important conversations about the racial inequalities suffered by ethnic minorities. Not least, it has forced private equity to ask what part it can play in this struggle, *Sam Birchall* writes.

It's no secret that the financial sector has a diversity problem. Professor Josh Lerner, Harvard Business School and Bella Research Group, published research noting fewer than 1.3 per cent of the \$69trn in global assets under the four major asset classes – mutual funds, hedge funds, real estate and private equity – are led by women and people from ethnic minority groups.

However, in light of recent events, the PE and VC community have been quick to pledge donations to civil rights groups, while promising to reduce racial disparities by investing in and recruiting from black communities.

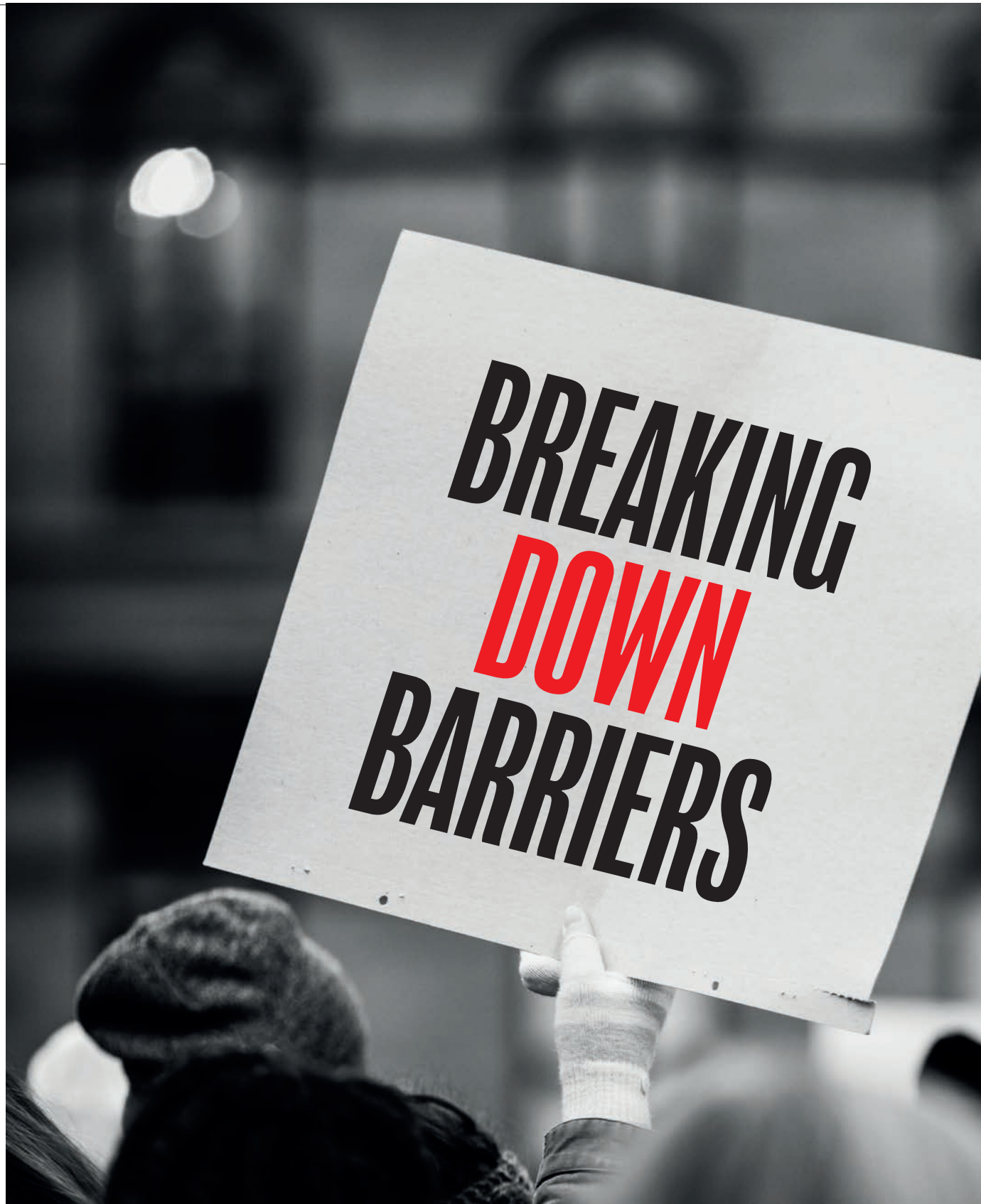
Among those to voice their support, Bain & Company has formally established racial and social equity as the fourth pillar of its social impact practice. The firm has also vowed to match up to \$1m in employee donations to organisations focused on racial equity.

Softbank has announced a \$100m Opportunity Growth Fund to invest exclusively in black founders and entrepreneurs. The vehicle will be backed primarily by the firm's own capital and will not have traditional management fees.

These steps have been praised as a step in the right direction. And yet, best intentions aside, they draw criticism for perceiving to pay lip service to a problem, while failing to address the underlying issue. Indeed, a glance at SoftBank's maiden Vision Fund, which totals a staggering \$10bn, reveals a lack of investment in black founders.

Equally, SoftBank's second Vision Fund, in which the company has committed \$38bn has made six investments so far - none of them into businesses with a black or female founders.

The issue clearly requires further commitments but Softbank's new diversity growth fund is still one of the largest pools of capital available for underrepresented founders, and should not be so readily dismissed.



\$1m

Bain & Company has formally established racial and social equity as the fourth pillar of its social impact practice and has also vowed to match up to \$1m in employee donations to organisations focused on racial equity.

Where's the data?

Many of the GPs that *Real Deals* contacted to speak about diversity for this piece refused to comment on diversity in the industry. Understandably, at this time, it is a sensitive and complicated topic to breach.

Gail McManus, CEO of Private Equity Recruitment, believes there is a strong desire within the private equity community to do something about its lack of diversity but admits: "It's a complicated issue."

"There's a sense that those within the industry are trying to talk about it but don't always know how to, and with added confusion about what diversity and inclusion actually means."

A similar sentiment is echoed in a recent LP 2020 Survey that found that just one third of LPs engage with GPs on diversity and inclusion.

It's an uncomfortable conversation, made harder by

the lack of data available on race, leaving little indication of the true scale of the problem. Despite mounting evidence that shows diversity will lead to better returns and greater talent retention, firms do not routinely track ethnic diversity in a systematic way.

Organisations like the BVCA, Preqin and PitchBook have published a spate of data on gender representation. But far fewer have done so for race, social class or sexuality. These issues have clearly received less discussion, and less action.

Part of the problem is rooted in trying to quantify factors such as race, ethnicity or social background. Commenting on this, deputy director general and director of policy at BVCA, Gurpreet Manku, told *Real Deals* that the BVCA is looking at how to expand its data to cover ethnicity and how to begin standardising the collection of this. "The challenge in going into that level



of detail is that you do come up against the General Data Protection Regulation restrictions. But, we are looking into how we can work with firms to incorporate those considerations.”

Undoubtedly there is a recognition within the private equity community that this needs to be the industry’s next big undertaking.

“Gender is easier to report and has paved the way. Ethnicity is following, but more warily,” says McManus.

Change from within

There are initiatives afoot to bring in and promote more minorities into the boardroom and across firms’ portfolios. This year the ILPA published a ‘roadmap’ to diversity, which lays out best practices and tools for implementing diversity and inclusion within PE firms. It makes recommendations along with links to useful

information and websites, intended for both GPs and LPs, such as appointing a chief diversity officer and promoting diversity across private equity-backed portfolio companies.

Most promising, however, are efforts that strive to educate employees about previously underexamined concepts like privilege, microaggressions and systemic racism.

The BVCA, for example, hosts frequent diversity networking forums designed to engage firms on how they can promote internal change within the context of their own businesses.

McManus notes that the past year has seen a surge of private equity firms take part in unconscious bias workshops. “Managers need to understand what their unconscious bias might be and learn to integrate that into their recruitment and internal processes. Only then can

CALLING FOR TRANSPARENCY

Effective change calls for greater transparency and accountability from PE and VC firms. According to a 2018 study by Deloitte and the BVCA: The diversity and inclusion revolution, when it comes to behaviour change, training is often only a “scene-setter”. The report identifies four other areas that need to be addressed, these include:

- Using data to pinpoint leaks in the talent life-cycle. This requires organisations to look at the profile of their employees from recruitment to retirement, including data on inclusion experiences.
- Identifying and remodeling vulnerable moments along the talent lifecycle. These are points within specific talent processes where decision-makers are more susceptible to bias: for example, when decisions are discretionary and not subject to review.
- Introducing positive behavioral nudges, such as altering the default setting.
- Tracking the impact. Periodically review diversity and inclusion data to assess the effectiveness of changes made.



the issue be properly addressed.”

Manku says the biggest questions relating to diversity is how do you bring more people into the industry? “Part of the solution will be continuing to promote careers of people in the industry with diverse backgrounds and reaching out to potential candidates from different ethnic or social backgrounds. For some firms this might mean offering more internships or broadening their recruitment focus.”

Setting specific diversity targets for firms to meet could be effective in increasing the representation of minority groups, but this could also result in incentivising the wrong behaviours and accusations of reverse discrimination. However, according to McManus: “It may be one of those situations that need it.”

New priorities

Manku notes that change will take time. “Not because people aren’t willing to accept change, but it’s just the way firms in our industry are set up. In a small firm, there aren’t always the opportunities to progress and you don’t often bring in graduates. Another conversation going forward could be looking at how the sector can bring in people with different career backgrounds. The will is there; part of the challenge is that we are a smaller part of the financial services industry and the lack of diversity is a broader issue.”

There is a recognition that larger firms, armed with greater financial firepower and a wider bandwidth for driving internal, cultural change, must pave the way. That is not to say that smaller VC and PE firms should not be playing their part.

At a time when the global economy is at its most vulnerable following the outbreak of Covid-19, and when portfolio companies are most receptive to change, buyout firms are looking to re-write their playbook. It makes sense that now more than ever, diversity, particularly where race is concerned, must be more of a priority. ●

Deals in brief

HEALTHCARE, USA

Target: X-Chem

In: GHO Capital

Out: Hellman & Friedman

Out: Carlyle

A: PwC

T: Deloitte

EV: Bridge House Advisors

I: Atlantic Global

L: Ropes & Gray

GHO Capital Partners (GHO) has acquired X-Chem Inc from Hellman & Friedman and an affiliate of The Carlyle Group.

X-Chem is a US-headquartered industry provider of DNA-Encoded Library (DEL) based discovery services. It provides drug discovery services to biopharma partners and has licensed over 70 research programs to companies throughout the US, Europe and Japan. GHO's investment, expertise, global network and international resources will benefit X-Chem, allowing it to accelerate its growth.

Upon completion of the transaction, Matt Clark, co-founder of X-Chem will be named CEO. He will lead the company in its next phase of growth and development.

Clark succeeds Rick Wagner, co-founder and CEO of X-Chem, who will resign from the company. Ropes & Gray provided legal advice to GHO, Health Advances provided commercial advice, Deloitte provided tax and IT advice, PwC provided financial and accounting advice, Corporate Risk Solutions and Atlantic Global Risk provided insurance advice, and Bridge House Advisors provided ESG advice.

BUSINESS SERVICES, UK

Target: Acolin

In: Sovereign Capital

Sovereign Capital Partners has backed the MBO of cross-border fund distribution services provider Acolin.

The UK-based buy-and-build specialist will support Acolin as it expands its client base and service offering through organic and acquisitive growth.

Founded in 2006 and based in Switzerland, Acolin provides services to more than 600 asset managers and represents around 1,800 funds. The business is led by founder and CEO Daniel Haelele and has around 85 employees operating from nine locations across Europe.

As the cross-border fund distribution regulatory landscape grows increasingly complex, there is huge potential in this area.



Ardian backs ProduceShop

Ardian has acquired a stake in ProduceShop, a Swiss e-commerce platform specialising in the production and sale of furniture. Since launching in 2015, the e-commerce platform has tripled its turnover through increased market coverage. Now markets like France, Germany and the UK account for more than 50 per cent of the company's trading. Ardian has identified ProduceShop as a radically innovative and data driven company in online sales. With Ardian's support, ProduceShop plans to embark on a strategy of internationalisation and exponential growth. Ardian recently raised a record-breaking \$19bn for the largest secondaries private equity fund ever raised.

As part of the deal, Sovereign has appointed Mike Covell, former Goldman Sachs managing director and chairman of investment firm Tilney, as non-executive chairman.

TMT, SPAIN

Target: NPAW

In: Suma Capital

Barcelona-based private equity firm Suma Capital has taken a double-figure minority stake in Nice People at Work (NPAW), an online video analytics

company. Founded in 2008, NPAW aims to improve video platforms both for companies and their end users. It currently has over 100 clients in Europe, the Americas, and Asia. The company has forecast 2020 revenues of €15m, which represents a three-fold increase in three years, and an Ebitda margin in excess of 20 per cent. NPAW is well placed to capitalise on the rapid growth of the online video services sector, which continues to benefit from: the transition to digital television; the multiplying of video content providers; the surge in social

media usage; and the recent norm of working from home.

Suma's investment will support NPAW's international expansion with an aim to double revenues by 2023. NPAW founders Ferran Gutiérrez (CEO) and Sergi Vergés (COO) will remain majority shareholders.

SOFTWARE, SWEDEN

Target(s): Alfa, Joliv

In: Main Capital

Main Capital has backed the merging of

SaaS providers Alfa and Joliv, creating a Swedish software provider for the care segment service.

The combined group will cater to more than 500 Swedish care institutions, which need help in navigating the digital transition of the healthcare sector and dealing with costs pressures arising from an ageing population.

Main Capital first backed Alfa with a majority stake in April. The combination of Joliv and Alfa will create a leading care software provider in the Swedish market and the combined offering will allow for adding further sustainable and strategic value to the end customers.

CYBERSECURITY, IRELAND

Target(s): Edgescan, Decora

In: BGF

BGF has backed two Irish-based businesses with equity investments that will accelerate international expansion and support new product development.

The UK & Ireland growth firm invested €10.5m to acquire a minority stake in Irish cybersecurity company Edgescan. It is the fourth funding round in the business by BGF in 17 months, bringing the total amount raised in this time to more than €30m. BGF has also agreed to invest €11.2m in Lisburn-based manufacturer of window coverings, Decora.

The funding will be used to support the manufacturer's growth through expansion into European markets, strategic mergers and acquisitions and continued investment in product development and infrastructure.

BGF first established a fund in the Republic in 2017 with up to €250m to invest in SMEs.

TMT, UK

Target: AVMI

Out: Alcuin Capital

Alcuin Capital has sold portfolio company AVMI, to Kinly.

Established in 1990, AVMI is a visual communications systems integrator which provides a range of video conferencing and audio visual services to the private and public sectors. With the investment, the business grew in both both scale and breadth. During Alcuin's ownership, AVMI continued its successful expansion, making a number of complementary acquisitions, broadening its customer base and expanding its operations from the UK into a global organisation with six international offices.



KEY:
D DEBT
MZ MEZZANINE
NC NEWCO
B BROKER
CF CORPORATE FINANCE
L LEGAL
A ACCOUNTING
C COMMERCIAL
T TECHNICAL
MG MANAGEMENT
I INSURANCE
P PROPERTY
EV ENVIRONMENTAL

A round-up of deals from the past few weeks.

TECHNOLOGY, UK

Target: ROI

In: BGF

L: Knights plc.

BGF has invested £3m into lead generation technology business ROI. The company allows small businesses to rent optimised websites to attract leads and boost their sales. Founded by young entrepreneurs, Robin Kaneteg and Joel Halling in 2018, the Manchester headquartered business has proven its model in Sweden, growing revenues in excess of £1m sales per annum in under two years. ROI's innovative proposition has had success in the home improvement and maintenance sector and is scalable across different geographies and sectors.

The investment will be used to support its expansion into 12 cities across the UK and Europe. As part of the deal, Pinesh Mehta, investor at BGF, has joined the ROI board. BGF was advised by Knights plc. ROI was advised by Squire Patton Boggs.

FINANCE, FRANCE

Target: Time For Growth

In: CAPZA

CAPZA has acquired private equity tech firm Time For Growth. Founded in 2009, Time For Growth is a private equity investor specialising in high growth tech companies across Europe. The acquired firm has a network of qualified tech experts, advanced sourcing capacity and a high-performance track-record. The Time For Growth acquisition comes as CAPZA advances towards the launch of a new CAPZA investment vehicle dedicated to growth tech. CAPZA has already invested more than €600m in some thirty technology companies. With more than €3.72bn in assets under management on behalf of French and international high profile investors, CAPZA has experience in supporting companies in their development over the last 15 years. The transaction has obtained the approval of the French Autorité des Marchés Financiers and is expected to finalised in the near future.

TECHNOLOGY, UK

Target: Zing Dev

In: Maven Capital

Maven Capital has invested in technology services company Zing Dev Limited (Zing). The company builds and implements contact centre solutions, helping

clients to improve customer communication and engagement. Zing is a specialist implementation partner for Twilio, a cloud communication platform. It is one of a small number of accredited Twilio implementation partners across Europe, the Middle East and Africa. It provides consultancy and managed services for Twilio's fully programmable cloud-based contact centre software. Maven's investment will enable Zing to capitalise on significant growth opportunities in the Communications Platform as a Service (CPaaS) market, which is expected to be worth \$17.2bn globally by 2023.

Continued growth is expected to be driven by businesses increasing use of technologies, including autonomous devices, SaaS technologies and AI analytics in strategic and procurement services.

Zing was spun-out of CRM provider Prospect earlier this year and will benefit from the experience of serial entrepreneur Julian Hucker, founder of messaging services business Esendex, who has been appointed as CEO.

TECHNOLOGY, UK

Target: Microsoft Dynamics

In: FPE Capital

FPE Capital's portfolio company The NAV People (TNP), has completed the acquisition of certain NAV-focused assets through the administration of K3 Business Technology Group's Microsoft Dynamics business. The transaction provides continuity of service to over 100 NAV customers, who will now be supported by Dynamics NAV/ Business Central experts in the UK. It is also set to accelerate growth in TNP's recurring revenue base. Since FPE's investment in 2018, TNP has doubled customer numbers through its support-led marketing engine to existing users of NAV systems, new business central implementations, and this acquisition. The transaction was funded in cash at completion from TNP's balance sheet.

SOFTWARE, NETHERLANDS

Target: Frontin

In: Main Capital

Main Capital-backed Inergy has acquired Frontin Group for further expansion. The acquired company is a specialist in multi-tenant planning and control software applications.

Inergy is a specialist provider of data and analytics services. The acquisition is part of Inergy's larger strategy to build on its product portfolio for the semi-government market. Inergy already offers a broad functionality in the field of planning & control for local authorities, provinces, regional water bodies and the education sector.

The two companies will continue under the name of Inergy, though the product names of Frontin as PAUW, BUIG and Frontinfo will continue to exist in the market.

Inergy is increasingly focusing on software applications for the semi-governmental market and aims to support municipalities in business operations, the social domain and the public space. Frontin's figurehead, Dirk Jan, will remain involved with Inergy, post transaction.

TECHNOLOGY, IRELAND

Target: TitanHQ

In: Livingbridge

C: Fairgrove

CF: GCA Altium, BDO

L: Addleshaw Goddard

Livingbridge has made an investment in cloud security vendor TitanHQ. The transaction has been made through Livingbridge's Enterprise 3 fund, which invests in fast growth SMEs with an enterprise value of up to £50m.

Headquartered in Galway, Ireland and with offices in Tampa, Florida, TitanHQ provides businesses with web filtering, email security and email archiving solutions.

The cybersecurity business, which has been operating for over 20 years, has achieved annual recurring revenues of over \$15m.

Livingbridge's partnership will enable TitanHQ to accelerate its growth plans through increased investment in product development and people. Advisors to Livingbridge include GCA Altium (lead corporate finance advisory), Addleshaw Goddard (legal), Fairgrove (commercial), BDO (financial). Oppenheimer & Co. acted as exclusive financial advisor to the shareholders of TitanHQ.

BUSINESS SERVICES, NETHERLANDS

Target: Zaaksysteem.nl

In: Main Capital

Main Capital has taken its first step to further develop and expand its product portfolio within the Dutch semi governmental market.

Led by its portfolio company Exxellence Groep, Main has acquired Zaaksysteem.nl.

The Amsterdam-based company targets small and medium-sized municipalities and Exxellence Groep serves mainly larger municipalities. Together, the group covers a large part of the Dutch municipalities and semi public organisations.

The combined company will also keep looking at further strategic combinations with software companies in the Dutch government market, to further expand the product range and added value to its customers.

Main Capital first entered the government software market in March 2020 by acquiring a majority stake in Exxellence Groep.

Last month, Main Capital raised €564m for its sixth fund to invest in enterprise software companies.

For information on every private equity firm's portfolio, please visit: realdeals.eu.com

SOFTWARE, GERMANY

Target: BELLIN

Out: LEA Partners

CF: GCA Altium

L: Milbank

LEA Partners has sold BELLIN, an international provider of treasury management software to Coupa Software.

BELLIN provides a cloud-based TMS platform that improves visibility and control over cash and optimizes treasury processes.

Based in Ettenheim, Germany, the business's solutions for cash and liquidity management, payments, and financial instruments are used by large and mid-sized organizations globally. The company also has offices in London, Vancouver, Cambridge, and Karlsruhe.

LEA partnered with BELLIN in 2017 as part of its strategy to invest in software vendors with leading market positions, substantial growth potential and high levels of recurring revenue. Over the past years, LEA supported BELLIN in its transition from a founder led business into a leading international treasury management software vendor. Over the holding

period, BELLIN has seen a rapidly expanded customer base. The transaction is the first exit out of LEA's Mittelstandspartner fund, which was closed in 2017 with €200m under Management. LEA was advised on this transaction by GCA Altium and Milbank. The terms of the transaction were not disclosed.

RETAIL, UK

Target: WIT Fitness

In: VGC Partners

VGC Partners, the growth capital investor, has completed a £1.5m in follow on funding for London-based sportswear retailer WIT Fitness. VGC initially invested £2m in the business in February 2019, which has been used to enhance its online platform and fund international pop-up stores.

The follow on funding comes as WIT Fitness has grown revenues by 56 per cent in the last year.

As part of the deal, Nick Adcock, CEO of Spyder Active Sports and former global president of DC Shoes, was appointed as non-executive chairman. New capital will be used to expand market share across all functional fitness categories, such as high intensity interval training (HIIT) and CrossFit, and bring more exclusive branded products to the market.

The company is also investing in developing its technology platform to ready it for the next growth phase as it looks to take a bigger slice of the US market.

Founded in 2011, VGC Partners has c.£100m under management across several funds and investment vehicles. Last year, the firm closed its Fund II at £50.3m to invest in UK-based consumer, media and tech companies.

SPORT, ITALY

Target: Serie A

In: Bain Capital

Bain Capital is reported to have made a \$3.4bn preliminary offer for a 25 per cent stake in Italy's premier soccer league, Serie A. The offer, trumps an earlier bid made by European private equity firm CVC Capital Partners.

It is understood that CVC entered into exclusive negotiations with Serie A in May for a deal that would grant the firm a 20 per cent stake in the league for c.\$2bn.

Both CVC and Bain have set their sights on a slice of Serie A's media rights as the league's clubs struggle to cope with mounting financial challenges.

Q&A

CORPORATE FINANCE CORNER

TREMAYNE DUCKER

Head of corporate finance, Zeus Capital

Zeus Capital's Tremayne Ducker discusses bolt-on acquisitions in the current climate and how they will be used by private equity funds as a lower risk approach to deploying capital.

By Simon Thompson

Bolt-ons are a tried and true private equity strategy, why are they more integral now?

Just because Covid-19 has come along doesn't mean the private equity houses don't have capital to deploy. The majority of these funds have a long life cycle, many of them being ten year funds.

After the 2008 financial crisis, many PE investors made the decision not to invest, or at least reduce investment significantly, for 12 to 18 months. This was made more difficult by the lack of debt leverage available. That put them behind the curve in terms of deploying their funds, which meant they were playing catch up. Hindsight also tells us this was actually a great time to invest, given the subsequent years of economic growth!

PE firms are generally keen to learn from the previous downturn and not "sit on their hands" until the full longer-term impact of Covid-19 is understood. Bolt-on acquisitions to existing portfolio companies is a way the funds can continue to deploy capital in the short term, in a lower risk way. It is worth remembering that many existing PE portfolio companies will also have been hit, to some degree, by Covid-19. PE will have to work harder to make their returns out of these existing assets, it may put back their exit plans. Making the right bolt-on acquisitions can replace some of the lost group and rebuild momentum towards a successful exit.

Why are firms that weren't looking at bolt-ons before, considering them now?

Growing portfolio companies through bolt-on acquisitions has always been core to private equity strategy, but this may accelerate in the next 6 to 12 months. In the uncertain times we face, scaling up portfolio companies can be a good defensive strategy to



make a business more resilient. Acquisitions can build market share and broaden supplier infrastructure. It will also be a good market for buyers at the moment. Inevitably there are companies that are now available for sale that weren't pre-Covid-19, potentially at more attractive prices.

To what extent are bolts-ons a more viable way of deploying capital, in the current state of the market?

In the current environment, it is harder for private equity firms to assess the value of a new stand-alone investment, given the major potential impact on earnings and increased perceived risk.

Conversely, bolt-ons are an easy way of adding value to a portfolio business where they already understand the market sector and have an existing management team who they have backed. Ultimately, however, it is lower risk.

What would an ideal bolt-on opportunity look like?

It is about synergies in terms of operations, supply chain, customers and ultimately corporate culture. It is often the revenue synergies that can ultimately drive the most value-add.

Identifying a company with complimentary products and services to an existing portfolio company, where you can cross-sell to both your existing customer base and the acquired customer base can offer real upside.

It is a lot easier to execute buy and build strategies in certain market sectors. Partly because it may be easier to identify and realise the synergies, but also, critically, where there has been significant fragmentation in a market and therefore, lots of smaller business that can be easily bolted onto the existing platform.

This has historically been the case in sectors such as healthcare services and telecoms.

To what extent are companies more open to being bought and bolted on at present?

There are vendors and shareholders that wouldn't have entertained such conversations pre-Covid, but I suspect given what has happened, some are happier to look at a sale. The value that can be realised today may be lower, but importantly, some vendors will inevitably not have the appetite to spend the time and effort to rebuild their business to previous levels of profitability and therefore, may decide to cash-in now. Other companies may not see a clear path to recovery if they are sub-scale and so may have no other option.

Obviously it will depend on the circumstances of the individual owners and impact of Covid-19, which will depend massively on sector. If you are a small business owner of a certain age who lived through the impact of the credit crisis and the long period of recovery, do you want to go through that again, potentially over the next few years? Some will, some won't and will see this as a perfect opportunity to sell and move on to their next challenge.

How are corporate finance advisors placed to arrange these transactions?

Corporate finance advisors talk to lots of companies. It takes ongoing dialogue to get to know stakeholders at companies and build an understanding of their agenda and whether they would consider an exit. PE firms rely on the advisor community for market intelligence and to bring them opportunities that potentially fit with their existing portfolios.

Interestingly, a number of PE houses have been front-footed in recent weeks, reminding advisors which of their portfolio companies would be most interested in bolt-on acquisitions and their criteria around size and fit. ●

WEBINAR OPPORTUNITIES AND CHALLENGES FOR THE "GOLDILOCKS" OF PRIVATE EQUITY

Real Deals' latest webinar in association with IPEM and hosted by Palico, looked at the opportunities and challenges for the European mid-market in a post-Covid environment. Here are some of the key themes that were discussed:

ON MID MARKET VALUE:

Claire Commons: "There is an ability for the mid market to really outperform if you pick the right managers. This can be done via professionalising businesses, diversifying the product offering, and the ability to expand into new geographies."

ON DIGITISATION:

Juan Luis Ramirez: "Digitisation is something that is becoming increasingly important. We often bring in consultants to our portfolio companies, who can then assess what can be digitised. In the production plan, digitisation has become especially important in helping to predict demand. In one of our portfolio companies - an ice cream company, we managed to improve productivity from 40 per cent to 65 per cent by using software to predict customer demand."

ON ESG:

Carl Nauckhoff: "ESG has become a key aspect of selling a business. There is no excuse for saying a business has phenomenal profit margins but hasn't addressed ESG issues. It is a no-go zone, regardless of financial returns."

ON SPECIALISATION:

Ilona Brom: "If you look from the bottom up in the EU mid-market, it is really hard to find sector experts, the best [PE] players tend to be generalists."

ON NEW VENDORS:

Juan Luis Ramirez: "We are buying from entrepreneurs and founders that have never had shareholders before; we try to find these jewels in the region. Before Covid-19, we would start considering minority investments and before 2015 just 5 per cent [of vendors] would be entrepreneurs who wanted to sell control stakes, the rest were happy with a minority investment. Now, I think with Covid, this has increased

SPEAKERS

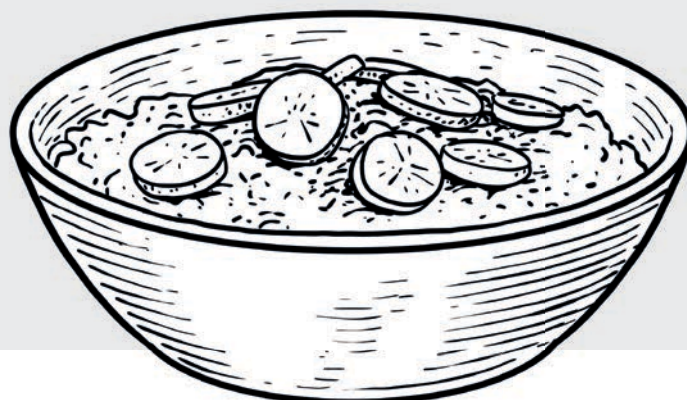
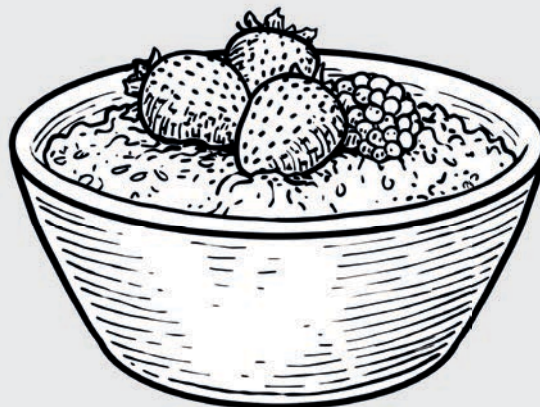
[Moderator]
Claire Commons,
Head of Strategy, Palico

Ilona Brom,
*Managing Director, Wilshire
Private Markets Group*

Juan Luis Ramírez,
*Founding Partner, Portobello
Capital*

Laura Dillon,
*Head of Irish Team | Principal,
Waterland Private Equity*

Carl Nauckhoff, Senior
*Principal and Head of IR,
Investindustrial*



substantially. For many business owners that need capital, they are sensing opportunities in the market... and they need capital to take those opportunities."

ON PRICING EXPECTATIONS:

Laura Dillon: "This is a period of uncertainty. There are a number of businesses where cash flows and balance sheets have unwound pretty quickly in some badly impacted sectors. Across Europe, governments are supporting businesses, which is delaying deals from happening. But, new opportunities are opening up, either where businesses are trading very well because of Covid-19, or have a gap in cash flow and need more support. People in the middle are holding off until there is more clarity. It takes time for pricing exceptions to settle between buyers and sellers. Coming into the summer, it might be busier."

ON OPERATIONAL VALUE:

Ilona Brom: "We don't care about GDP growth expectations. At the end of the day, it's all about reading operational value, which is not dependent on the economy or leverage. But, really transforming the company into something better, whether that's by buy and build or internationalisation."

ON OPPORTUNITIES IN THE MID-MARKET:

Laura Dillon: "We continue to be very focussed on buy and build and consolidation opportunities, in addition to organic growth. There are quite a few attractive sectors in Ireland including healthcare, IT services, food and agri, etc..., across different areas of the value chains. For our team, it is very important to identify attractive markets and then determine if there are enough businesses that meet our platform target size criteria and then, if there are sufficient M&A bolt-on opportunities in the sector to accelerate growth. ●

PEOPLE

SILVERFLEET

After 31 years in private equity, Silverfleet partner **Kay Ashton** is retiring from the industry. Ashton is one of Silverfleet’s longest standing partners, having joined the firm in 1992. Starting in private equity in 1989, Ashton boasts one of the lengthiest female contributions to the industry.

During her time at Silverfleet, she has been involved in a number of successful deals. For many years, Ashton looked after investor relations and more recently, she focused on the oversight of the firm’s portfolio management activities.

She has also given back, encouraging more gender diversity in the private equity industry as part of the Level 20 programme. She hopes to continue this in addition to mentoring some of Silverfleet’s female execs.

Ashton will continue to act as a consultant to Silverfleet and as a non executive director at Silverfleet portfolio company Sigma.

OMNES

Omnes has made a raft of new appointments to support its co-investment and mid-cap growth teams. **Aubrey Stewart-Quinquis**

joins the mid cap team as an analyst. Stewart-Quinquis will support companies with an enterprise value between €40m and €200m, with growth prospects and capacity for increased market share within France and abroad.

Iris Duffillot and **Simon Hardi** have joined Omnes’ co-investment team, respectively as associate and principal. Working on behalf of institutional investors, the team supports minority stake deals with mid and large cap operations, alongside European and US funds.

Alexandre Yip has also joined Omnes in operations as financial controller. Yip will be working on internal cross-company functions and dedicated to operationally supporting the firm’s marketing, investor relations, communications and risk management.

IQ CAPITAL

IQ Capital, has appointed **Simon Hirtzel** as GP.

Hirtzel will focus on building LP relationships to further IQ’s ambitions of taking companies through their entire growth cycle, from seed to exit.

Prior to joining IQ, Hirtzel served as chief financial officer at PA Consulting Group until 2007, then as Kreos Capital.

INNOVA

CEE-based private equity firm Innova Capital has promoted **Magdalena Pasecka** to partner.

Pasecka will have increased responsibility for the portfolio development strategy, strengthening the firm’s portfolio value enhancement and ESG functions within the firm.

Pasecka has been at the firm for more than ten years. She first joined as CFO and will continue to take on this role alongside her new duties as partner.

She is also a member of Innova Capital’s investment committee, participating in all key decisions regarding current and future investments.

Before taking the role of CFO at Innova Capital, Pasecka was a management board member and finance director in MCI Capital, a listed company in the venture capital and private equity sector. Prior to MCI, she cooperated with Innova Capital in the role of financial controller.

Pasecka joins Andrzej Bartos, Krzysztof Kulig and Leszek Muzyczyszyn as an additional partner in the management company.

KEYHAVEN

Keyhaven Capital has appointed **Anne**

Niederstaetter and **Alma Lawrie** to its investor relations and investment teams.

The hires bring Keyhaven’s headcount to 23, as the business continues to develop an experienced team with pan-European coverage.

The appointments also bolster Keyhaven’s fundraising ability and add further depth to its relationship-driven approach to deal sourcing and execution across Europe.

Niederstaetter joins Keyhaven as a partner in its investment team, with responsibility for sourcing, executing and monitoring investments. She will lead the firm’s efforts in German speaking Europe. She joins Keyhaven from JP Morgan where she spent 20 years in a variety of investment banking roles.

Lawrie joins Keyhaven’s investor relations team, with responsibility for investor relations and fundraising activity.

She has more than 20 years of private equity experience and has held investor relations and fundraising roles at Samena Capital, Dubai; Gulf Capital, Abu Dhabi; and Deloitte Fund Placement Advisory Group in London.

Niederstaetter and Lawrie join Keyhaven at a time when the firm is seeing a

pipeline of opportunities to partner with local sponsors, despite challenges caused by Covid-19.

GCA ALTUM

Global investment bank GCA Altium has strengthened its European debt and restructuring team with the appointment of **Gareth Owen** as director based in its Manchester office.

GCA Altium has 19 dedicated debt professionals and has advised on 35 debt deals in 2019 and over 100 in the last 3 years. Driven by increased demand in the region, Owen’s appointment will boost GCA Altium’s debt offering in the North.

Prior to joining the company, Owen spent 12 years at Lloyds Bank working in a variety of debt financing roles including restructuring, corporate lending and leveraged finance.

Owen was previously head of the regional strategic debt finance team at Lloyds Bank.

AZTEC

The Aztec Group has appointed **Kathryn Purves** to the group board as a non-executive director.

Purves’ career encompasses banking, private equity, life insurance and wealth management.

She has experience in investment, legal, operations, commercial and risk management roles.

Purves spent 12 years in global banking and investment management in the UK, South Africa and Australia, before joining Partnership Life Assurance Company. Until recently, she served as CEO of IFG Group, managing the successful sale of the business to a private equity fund manager.

Purves has a portfolio of non-executive roles. As well as sitting on the Aztec Group board, Purves will take active roles on the group’s risk and audit committees.

DC ADVISORY

DC Advisory has made **Ajay Bijoor** managing director of the firm’s debt advisory & restructuring group.

Bijoor has 20 years of investment banking and corporate finance experience and joins from Guggenheim Securities where he had been a managing director in the restructuring group. Prior to this he worked at Peter J. Solomon.

DC’s team advises on restructurings, liability management transactions and traditional bankruptcies.

The hire comes at a time when PE clients need more complex debt solutions and restructuring options.●

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Vulture



Real (Deals) love

One reader of *Real Deals* let us know just how much he loved the last issue of the magazine. Apparently, he was so enthralled with the artwork that he made the front cover of the issue his new desktop background. Perhaps the cover, which depicts an astronaut dramatically suspended in space, taps into some long forgotten childhood dream of space exploration. Or, is it just Vulture who wakes up some mornings wondering how he ended up with a career in private equity?

Diversity blunders

This week, amid widespread racial protests, Vulture has been having a lot of conversations about diversity. A lot of GPs have shied away from the topic, out of fear it might seem opportunistic to comment given current social unrest. The old bird can't help but think that silence can speak louder than words. Others have been more vocal on the topic of diversity, or the lack thereof it...

One partner, an attendee at last year's SuperReturn, said there was a panel on

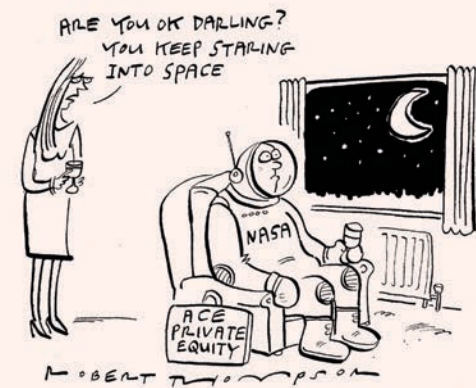
diversity. "It was depressing to watch as half the room got up and left," she said.

Interestingly enough, Vulture was made aware of another diversity-related mishap that took place at the same conference. Apparently, a heated discussion between a black, female panelist and an audience member broke out after the panelist tried to explain the concept of micro-aggressions. "That incident hijacked the whole conference. It was really quite embarrassing," said a witness.

Rocky relationships

The relationship between a journalist and a private equity PR is not dissimilar to that of an LP and a GP: the best ones tend to be founded on communication, transparency and, of course, the underlying propensity to disagree. Private equity, as a relatively new industry, is still working out how to approach the media and a PR is there to either fend off journalists or court them. It is a dizzying dynamic and one which, for the most part, works well.

However, Vulture was taken aback to see some recent statistics that show PR pros outnumber journalists by a 6-to-1 ratio! Some worrying figures that Vulture is sure has nothing to do with salary.. It does shed some light on why the phone never seems to stop ringing though. ●



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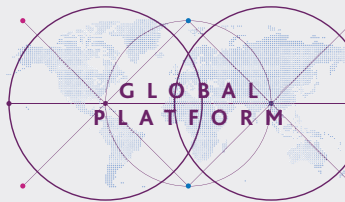
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