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LPEA

SWANCAP: SEEKING EVERY OPPORTUNITY FOR HIGHER RETURNS

ENOVOS AND CREOS EMBRACE CORPORATE VENTURING

RIPPING MORE VALUE FROM THE (NEW) SPREADSHEET

SEEKING EVERY OPPORTUNITY FOR HIGHER RETURNS

INTERVIEW WITH SWANCAP ON THEIR FUND OF FUNDS STRATEGY AND THE RISING APPETITE FOR CO-INVESTMENTS.

Anja Grenner

ANJA GRENNER (AG) – SWANCAP WAS FOUNDED IN 2013 BUT THERE IS A GOOD DEAL OF HISTORY BEFORE THAT MOMENT.

Claus Mansfeldt (CM) – We have invested in Private Equity since the year 2000 as part of UniCredit Bank, originally as an adjunct to the leveraged finance business. This is the background to what we do and there are important aspects of that, such as a deep understanding of PE financing and risk. Analysis and diligence is something we were doing as part of the bank's DNA. Moving into equity investing represented different risk-rewards and different diligence requirements, but there are also many parallels.

As of now, we are 27 people worldwide, of which six are based in Luxembourg. We manage about EUR 3 billion in private equity strategies, comprising primary PE funds, secondary investments in PE funds and direct co-investments. To date, we've invested cumulatively in excess of EUR 5 billion since 2000. This consists of commitments to over 150 funds and 80 co-investments.

IS THERE ANY SPECIFIC INDUSTRY THAT THE TARGET FUNDS SHOULD BE INVESTED IN OR DO YOU LOOK AT PERFORMANCE FIGURES ONLY?

CM – Rather than specific industries we have limited ourselves to the more traditional and established mid- and large cap buyout markets and geographically to Europe and North America. This focus is a successful one, where we are comfortable and is the largest space in PE. Of course, indirectly we are occasionally exposed to certain high-growth technology sectors or emerging markets. Consistent performance with a focus on capital preservation is key for us. Sector wise we are, however, mostly agnostic.

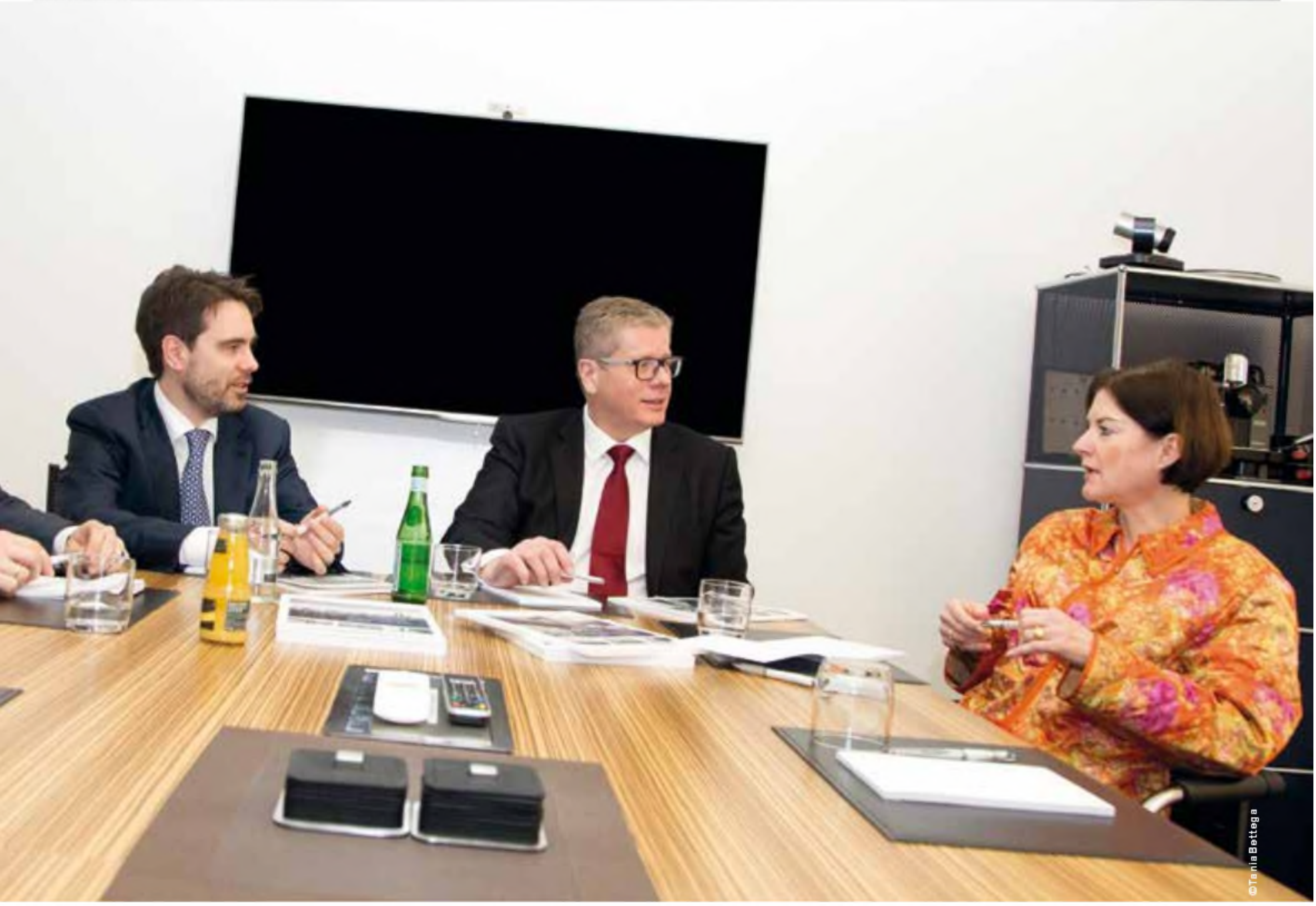
SWANCAP WAS OFFICIALLY SPUN OUT IN 2013 BUT THE EXECUTING TEAM HAS BEEN THERE SINCE 2000. THIS MEANS YOU ARE NOW EXITING THE FIRST GENERATION OF FUNDS STILL SET UP AT UNICREDIT?

Andrea Millioni (AM) – The first two SwanCap funds have an average maturity of five to six years, with a combination of assets from the portfolio built by the team while still at UniCredit and new investments made since becoming an independent player. More recent funds are still in their investment period. In the past three years realisations have been strong, but new investment activity also continued at a healthy pace. As we fundraised in conjunction with the launch of SwanCap, we gained new capital to deploy from day one. So we have been very active in the market in the last 17 years without any break.

Holger Emmel, Andrea Millioni, Claus Mansfeldt and Anja Grenner

Andrea Millioni

SO YOU HAVE BEEN ABLE TO BUILD UP A GOOD TRACK RECORD SINCE. WHAT IS THE IRR TO DATE?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AM – The gross IRR we have generated is about 17% (per annum) and the net around 15%, which we believe puts us in the top quartile in the FoF business. We obviously try to look at benchmarks and there are different ways to compare performance because we do not have a specific fund for each vintage. Nevertheless, by looking at groups of three consecutive vintages since 2000 we believe we have been consistently performing extremely well vis-à-vis our peers.

IS PART OF THAT GOOD TRACK RECORD DUE TO A COMBINATION OF MAKING INVESTMENTS IN FUNDS AND DIRECT INVESTMENTS OR IS IT JUST THE SELECTION OF THE RIGHT FUNDS?

CM – It all relates to good GPs, but also deal selection and deep Due Diligence and direct investment capabilities. In our case we have found that direct co-investing has been a great portfolio management tool. We can rebalance the overall portfolio, accelerate deployment or slow it down by our own choices. This contrasts to one's more passive invest-along duty as an LP in a given fund. To answer your question, yes, fund-selection is key but also the active co-investing side can be accretive to overall returns, by several percentage points, in our experience.


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Claus Mansfeldt

AM - PART OF IT IS ABOUT BEING DISCIPLINED IN SELECTING GOOD GPS AND GOOD CO-INVESTMENTS BUT ANOTHER PART IS DUE TO THE LACK OF AN EXTRA FEE LAYER.

CM – We probably run a higher ratio than the market with up to 20% to 30% allocation to co-investments. Our firm is populated with direct investment expertise and that helps us gain conviction to take on extra commitments in co-investments. When you do a co-investment you really stick your neck out – a bit like the underlying GP himself. You can't hide behind the fact that you've just been drawn into it like a general LP. You need to be convinced when you proactively opt to invest tens of millions euros into it.

WHAT DOES IT TAKE TO BE SUCCESSFUL IN DOING CO-INVESTMENTS?

AM – There are many factors. It all starts from having a strong pipeline of opportunities. Effective sourcing requires one to be very close to the GP investment teams. We try to get into deals early, even before the sponsor secures the investment. In some cases, we are part of the bidding consortia, especially when our own insights, knowledge and experience in direct investments may add value. We leverage our expertise in specific sectors but also spend money in our own independent due diligence to deepen of our understanding of a business or challenge plan assumptions.

Then it is about deal selection and ability to maintain pricing discipline throughout the cycle. We very much focus on risk-adjusted returns. Regarding performance, all data shows that private equity is a profitable asset class but there is a wide gap between the top and the low performers; we strive to remain part of the former group by only deploying capital when we have a strong conviction that an investment can deliver at least our target returns. In our experience, the most attractive co-investments often relate to quality businesses offering visible strong cashflow generation and multiple levers of value creation. About risk, we always look at capital preservation for each investment while careful portfolio construction is a very powerful tool in reducing overall risk via diversification by GP, vintage, sector and geography at fund level.

IS THE CO-INVESTMENT ROUTE EMBRACED BY ALL OF YOUR INVESTORS OR YOU ALSO HAVE INVESTORS WHO JUST WANT TO GO DOWN THE MORE DIVERSIFIED FUND ROUTE?

CM – Yes, we have some mandates that express their preference for the diversified fund approach only and we tailor the solution to their requirements.

AM – It is also fair to say that some investors have expressed a desire to find ways to have a pure direct investment strategy which would allow a faster deployment of their capital and leverage on our ability to work on a more concentrated portfolio.

YOU ARE ALSO REACHING OUT TO FAMILY OFFICES?

CM – Yes, we already have some family offices who have invested into our funds. One comment on family offices though is that some are not necessarily mandated to do alternative investments. They are more often mandated to do mainly liquidity management so there is a little bit of differentiation within the family office space. Perhaps the founder family perceive that what they do on their entrepreneurial side constitutes their PE exposure. We would argue that institutionalised PE investments sit somewhere in between, more like pension savings or legacy endowments.

YOU OPTED FOR LUXEMBOURG AS HOME JURISDICTION FOR THE FUND FROM THE FIRST MOMENT ON. WHAT WAS THE REASON FOR THIS?

Holger Emmel (HE) – At the time in 2013, just as the AIFMD went live in Europe, we were questioning ourselves, where could be the perfect headquarters for the regulated entity, and we rapidly came to the conclusion Luxembourg would be ideal as we wanted to market the funds across various European jurisdictions. For instance, our current fund is marketed in 15 countries in Europe. Luxembourg was an early adopter of the AIFMD Directive, thus providing a clear regulatory environment, and was known for having a very knowledgeable and responsive regulator. We also found a supportive and highly professional ecosystem with where we could select the right service providers for our needs and a very international workforce to leverage on.

Holger Emmel

HOW HAVE YOU ORGANISED THE SET-UP HERE IN LUXEMBOURG?

HE – I believe we were amongst the first handful of managers to obtain an AIFM licence here in Luxembourg. We started with two FTEs who moved from London, and then added local resources as the platform expanded. We now have six full-time employees based in Luxembourg. Since the beginning, we wanted to have our own AIFM with substance on the ground, covering portfolio and risk management, valuation and compliance, and set up on a strong control framework for the delegated functions, in particular central administration. We continue to build and strengthen our platform as we are growing.

BESIDES THE REGULATORY REQUIREMENTS – WHICH YOU OBVIOUSLY HAVE TO COMPLY WITH – ARE INVESTORS ACTUALLY LOOKING AT COMPLIANCE MORE IN-DEPTH TODAY?

HE – Yes, very much so. We get frequent requests from current and future investors. Compliance is very much at the core of their due diligence. They really look at how we approach compliance and challenge our policies and procedures.

CM – This is also a competitive element. If an investor has the choice with a best-in-class practice – compliance, ESG, etc., all else being equal, the investment committee will have a very easy choice to make. We have decided to be at the forefront of that. We have recently joined the United Nations Principles for Responsible Investing.

AM – One other area where we try to differentiate ourselves is the reporting we produce on a quarterly basis for every fund. Information is always appreciated, in particular by the more professional investors which sometimes act as the anchor for a fund.