KEYNOTE INTERVIEW: SWANCAP

The importance of being active

Co-investment is one of the key pillars of SwanCap's investment activity. PEI *speaks to co-CEO and co-founder of the firm* *Florian Kreitmeier*

***Kreitmeier**: value enhancing co-investing requires direct private equity expertise and sector knowledge*

Q SwanCap is a relatively new name in private equity. Can you give us a brief history?

Sure. SwanCap is a new name, but the team's track record dates back to 2000. The firm itself was established in 2013 with the spin-out of Unicredit's private equity unit. We are now an independent investment management firm, with a boutique approach, specialising in private equity. We have offices in Munich, Milan, Luxembourg and New York and now have €3 billion in assets under management.

Q That's a lot of money raised for a start-up. The buoyant fundraising market has jumpstarted your firm?

To some extent, yes, clearly the market dynamic has been important, but at the same time our track record in primaries, secondaries and direct co-investment dates back to 2000. We have a track record of more than 15 years.

Q Where does co-investment fit into your strategies?

It plays a hugely important role in our integrated investment approach, which comprises primaries, secondaries and direct co-investments. Over 15 years we have invested more than €1 billion into more than 70 transactions. It has provided us with an important way to boost returns and optimise cash flow for our core fund programme and our individual accounts. It also allows us a greater level of discretion over our deployment rate.

It also provides with valuable specific knowledge about the manager with whom we are investing. This in turn gives us an advantage when it comes to making primary commitments; we have an improved and very close relationship with the transaction team having worked with them through the investment process.

Q How much of the programme ends up in co-investments?

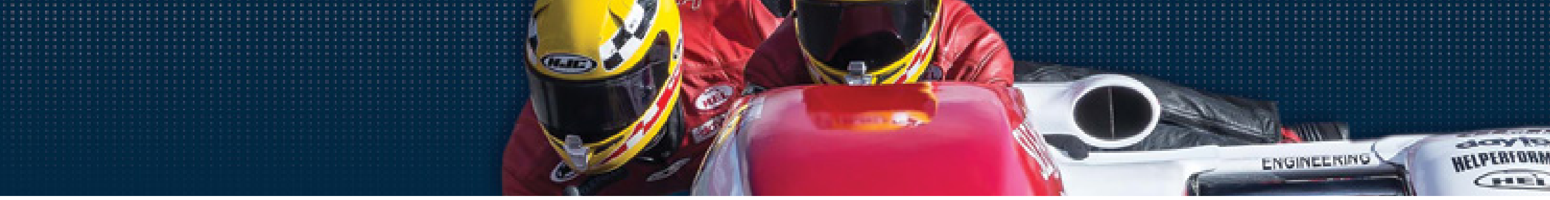
Historically around 20 percent of our funds have been allocated to direct co-investment. In our individual accounts this proportion can be much higher.

Q The allocation of investment opportunities between fund programmes and separate accounts is an increasing area of contention for some investors. How do you deal with this?

It is a good question and we hear from our LP base that they do have concerns for many of the larger asset managers they back. SwanCap has what we call an 'investment boutique' approach, which means we work with a select group of high quality institutional investors. We then limit the number of separate accounts that run parallel to our one co-mingled fund. In this way we do not encounter allocation conflicts.

Q In terms of co-investment, which geographies or sectors are most attractive to you?

Western Europe and North America. These are two regions that we believe provide the most extensive pool of opportunities; private equity is a well-established asset class here and we find the strongest managers with the strongest teams.



Q And which market segments?

We focus on the private equity buyout market. Within this segment we are mostly active in the mid-market – or the upper end of the mid-market. These deals have historically outperformed the rest of the market and we see the opportunity set being most attractive here going forward.

Q Do you have a sector bias in your co-investment programme?

If you look across our historical co-investments, you will see that certain sectors have a little more weight than others, but in principle we are active across sectors, focusing on high quality assets in sectors in which we do have some specific knowledge. And after 15 years we do have experience in a number of sectors.

Q What do you think are the key attributes needed to implement a successful, value-enhancing co-investment strategy?

Our experience has been that there are many LPs out there who express a desire and appetite for co-investment, and claim to want the dealflow, but the list of LPs who are a consistent and reliable partner to the GP is not very long.

Co-investment can provide an LP with outperformance, but not every deal will deliver it. We believe you need to be close to the transaction team and understand why the GP is the right owner and has the right strategy for the company at this point in time. Not all great companies are great investments.

> ***"There are many LPs out there who express a desire and appetite for co-investment, and claim to want the dealflow, but the list of LPs who are a consistent and reliable partner to the GP is not very long***

Another key element to co-investment is very thorough, deep dive due diligence. Co-investors need the operational resources and expertise in-house to do this. This includes industry and sector knowledge as well as direct private equity know-how. It can be dangerous for a fund investor to suddenly start dabbling in direct co-investment as a sub-strategy. At SwanCap we have separate teams for fund investing and direct investing. I, for example, was formerly at Apax Partners and many of my team have direct and operational experience.

We also see a definite correlation between the length of our due diligence and the performance of the deal, so for this reason we try to be in as early as possible, we do our own due diligence, bear our own due diligence costs and take time to understand both the company and the trends affecting the sector.

Q When you say "early", how early do you mean?

This relates to the difference between what we call 'active' and 'passive' co-investment. Passive co-investing is when a manager underwrites the deal and, post-signing, invites LPs to co-invest. You then have a couple of weeks to do your due diligence.

Active investing, which is what we favour, is when you join the process prior to signing and become a co-sponsor, joining the GP to conduct your own due diligence without interfering into the process.

Q Do you expect to be operationally involved after the deal closes?

No, unless it is especially desired by the GP. In any co-investment, it is the GP who ultimately drives the investment. That is why the due diligence is of utmost importance, because once you are in you have a passive role.

Q What lessons have you learnt from the last downturn?

We have been investing through various cycles and witnessed that diversification in the portfolio and a focus on high quality assets is key. The global financial crisis showed that strategy matters; not all strategies and geographies recovered so well. We saw the buyout market in Europe and America fare particularly well and we believe the crisis increased the attractiveness of these segments. ■

SPONSORED BY
SWANCAP