

THE CASE FOR MINORITY EQUITY INVESTING IN MID-SIZED PRIVATE CAPITAL GPs

ANALYZING THE POTENTIAL COMPELLING BENEFITS AND GROWTH OPPORTUNITIES OF GP STAKING



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“We believe that investing in mid-sized firms, which is aligned with Investcorp’s focus on the middle-market for nearly 40 years, provides the most attractive opportunities for GP Staking. These firms are ideally positioned in their growth trajectories and can materially benefit from a supportive and engaged minority partner. Further, transactions with mid-sized GPs are also done on a more direct basis, thereby lending itself to more creative and aligned transaction structures with the potential of protecting downside and maximizing value creation.”

MARKET BACKGROUND



Established GP staking buyers have moved focus to large scale GPs

- > US \$10 billion average AUM of GP seller from 2018-2019.



Attractive opportunity with mid-sized GPs (AUM between US \$1 and US \$10 billion) seeking capital and partnerships to help grow their businesses.



Broad and growing universe with estimated potential market size of US \$90 billion and limited active buyers.



Established in 2018, Investcorp’s Strategic Capital Group seeks to identify and partner with businesses that it believes to be well-established, with successful track records and poised for growth.

TRENDS DRIVING GP’S CAPITAL DEMANDS & ALTERNATIVES



Continued low global interest rates that are expected to remain low for foreseeable future.



Private market history of outperformance compared to public equity markets, especially amid extreme volatility and recessionary environments.¹



Increased allocation to private market strategies to achieve acceptable yields and returns for some investors.

WHY MID-SIZED GPs REPRESENT WHAT WE BELIEVE TO BE THE MOST COMPELLING OPPORTUNITY FOR GP INVESTING



Favorable supply and demand dynamics in the mid-sized market.



Businesses have low attrition rates yet attractive growth profiles.



Investments are sourced directly allowing for more bespoke structuring.



GPs tend to be earlier in their life cycle and place a greater value on partners’ advice and resources.

MUTUAL BENEFITS FOR ALL PARTIES INVOLVED



GPs can raise growth capital through a stake sale while benefiting from the resources of an established alternative platform, including distribution.



LPs have the potential to achieve private equity like returns on a current yield basis while gaining exposure to the long-term secular growth of alternatives.

¹Source: EY, “Why private equity can endure the next economic downturn” (March 2020).

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