Private Equity International

By: Isobel Markham
PUBLISHED: 4 August 2020

NEWS & ANALYSIS

RidgeLake Partners joins GP stakes market with $500m pot

The partnership between New York Life affiliate PA Capital and Ottawa Avenue Private Capital is targeting fund managers in the lower mid-market

Alternatives manager PA Capital – formerly known as Private Advisors – and Ottawa Avenue Private Capital have teamed up to launch a GP stakes strategy.

The strategy, named RidgeLake Partners, is equally seeded by PA's parent company New York Life Insurance Company and OAPC's affiliate RDV Corporation for a combined $500 million. RDV is the family office of Richard DeVos, father-in-law to US Secretary of Education Betsy DeVos.

PA Capital and OAPC have established a team of investment professionals from across the two organisations, co-led by Michael Lunt and Todd Milligan, to focus on RidgeLake, with broader investment and operational support provided by both firms.

OAPC, which manages more than $13 billion of assets, a minority of which is third-party capital, has been involved in GP stakes investments since 2015 and made six investments. In September it acquired a passive minority interest in Scandinavian private equity firm Nordic Capital.

PA Capital and OAPC have worked alongside each other as limited partners since 2001, and OAPC has invested in PA Capital fund vehicles.

RidgeLake focuses on acquiring minority equity stakes in "top tier" mid-market private equity management companies across buyout, growth, distressed private equity, secondaries and real assets, focusing on those with $1 billion-$10 billion in assets under management.

"Just like in traditional private equity investing, our view is LPs don't often exclusively invest in larger mega-cap private equity, they typically also invest in lower and middle market strategies for diversification," Milligan, managing director in private equity at PA Capital, told *Private Equity International*. "We think that the same complementary exposure applies here for GP stakes."

RidgeLake aims to leverage the more than 250 GP relationships it has collectively across PA Capital, OAPC and across the New York Life Investments Alternatives platform, of which PA Capital is one of three subsidiaries.

This focus on the mid-market and breadth of GP relationships is what differentiates RidgeLake from other GP stakes players, which in the main have focused on the large-cap space, Milligan added.

Addressing a capital need

Fundraising and investment success have created a need for growth capital among such firms, said Lunt, managing director at OAPC.

"These firms are often institutionalising or further institutionalising their business; they may be launching an adjacent strategy or perhaps opening a new office or, almost equally important, with success they've grown the size of their funds, and the partners in the firm want to keep making that same level of commitment to their own funds," Lunt said. "This capital in the GP stakes market can be used for any of those growth capital purposes, including to help fund the GP commitments of the founding partners, or that next generation of investors and other team members at these firms."

The intention is to hold these minority equity stakes on a long-term basis with no set plan for exit.

"It's hard to know with certainty what liquidity solutions will look like many years out into the future," Milligan said. "Like all the other markets in the private asset class, we think this market will evolve over time too, and there will be liquidity solutions that may present themselves, but it's hard to speculate today as to what shape or form they may take hold when we're talking about long-term holds for these assets."

Milligan and Lunt declined to comment on return expectations for the fund.

According to an analyst note from PitchBook, firms targeting GP stakes in the mid-market typically underwrite investments at a net internal rate of return of 20-25 percent and a 2.5-3.0x multiple on invested capital.

Last year Investcorp launched a GP stakes arm, its Strategic Capital Group, and is seeking $750 million for its debut fund for the strategy which also focuses on the mid-market. In a white paper published in May, the Bahrain-headquartered firm estimated the potential size of the market for minority stakes in GP management companies to be around $90 billion, which represents the total enterprise value of alternatives managers that have raised between $1 billion and $10 billion over the last decade.

PitchBook notes that supply and demand in the mid-market favours GP stakes firms; more than 400 GPs have raised between $2 billion and $8 billion in the past decade without any backing.

PitchBook also posits that covid-19 could "tilt the odds further in the favour" of these firms.

"A reduction in portfolio company valuations is likely to lead to fewer realisations in the next few years, delaying and possibly reducing carry payments to GP management. This means firms without healthy reserves of capital will struggle to finance GP commitments on upcoming funds," the note reads. "Middle-market GPs may also seek to expand into new strategies post covid-19, making strategic capital and advice even more important."