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Jeffrey Brown

Azimut Alternative Capital Partners, the GP stakes unit of Europe's **Azimut Group**, expects bolt-on deals to become a valuable tool for mid-market managers looking to grow quickly.

"We're hearing from mid-market firms operating with a single strategy that want to scale, perhaps through a new complementary strategy," AACCP CEO

Jeffrey Brown, a former **Dyal Capital Partners** managing director, told *Buyouts*. "The question is whether they make it or they buy it."

Large private equity firms often add platforms by hiring outside talent. In the mid-market, a bolt-on that merges one manager with another "makes more sense," Brown said, and has "more upside potential."

"This hasn't been done before," Brown noted. He expects, however, to see M&A activity of this type over the next five years, especially as mid-market firms increasingly transact with GP stakes funds.

Partnering with an experienced investor is key, Brown said, as "bolt-ons are tough to do." In addition, the right GP stakes fund will be able to locate bolt-on candidates among managers "that can't break through."

GP stakes funds are also incentivized to pursue bolt-ons, Brown said. "They will get a more diversified mid-market firm," he said, "and one that is more attractive to limited partners."

GP stakes funds, which acquire minority interests in PE firms in exchange for a share of income, have emerged strongly in the past few years.

Blackstone's Strategic Capital, **Goldman Sachs'** Petershill unit and Neuberger Berman's Dyal dominate the space, assuming the bulk of capital raised and deals done.

Intensive investing since 2014 mostly engaged large PE brands. Deals have more recently targeted mid-market firms, typically with \$2 billion to \$8 billion in assets, according to a July report by Pitchbook. The environment is favorable for GP stakes funds, Pitchbook said, as there are far more sellers than buyers.

'Not just a check'

AACP launched last November to invest minority capital in mid-market firms with diverse strategies, including private debt, PE, venture capital, real estate and infrastructure. It will acquire stakes of 20 percent-plus in mostly US managers with assets of \$500 million to \$3 billion, drawing on the balance sheet of Milan-based Azimut, a \$65 billion asset manager.

Mid-market firms, like large shops, sell pieces of themselves to GP stakes funds to bolster balance sheets and fund priorities, such as GP commitments to new pools. The latter was the focus of AACP's debut investment this year in **Kennedy Lewis Investment Management**, an opportunistic credit manager.

Founded in 2017 by David Chene and Darren Richman, Kennedy Lewis is marketing a second fund with a \$1 billion target. It will use 90 percent of the transaction's proceeds to top-up commitments to its own vehicles.

Kennedy Lewis is representative of the deals AACP aims to do, Brown said. The fund's sweet spot are firms with assets of \$1.5 billion to \$2 billion and at an inflection point in their growth and evolution. Such firms, he said, are seeking "a value-add and not just a check."

Wes Wilkinson, AACP's head of affiliate investments, agreed, noting managers in this size range are often ambitious but "still thinking through issues of growth and institutionalization." Because of this, he said, they "need and want more support" than their larger counterparts.

AACP is well set up to lend this support, Wilkinson said. By investing from Azimut's deep and stable capital base, the fund can hold assets indefinitely, ensuring "a long runway to see growth objectives play out." This, he said, is "a big differentiator" relative to the term funds of rivals.

AACP's affiliate development program is another source of support, helping managers meet developmental goals and adopt best practices. It will also provide access to Azimut's global distribution and relationships.

AACP will do three to four deals per year. It prefers to source opportunities through networks, Wilkinson said, with relationships driving about 40 percent of the pipeline.

AACP has been in hiring mode of late. Recent recruits include Wilkinson, who joined from Perella Weinberg Partners, where he was a director. Other senior team members include deputy CEO Vittorio Pracca, who heads Azimut's investor relations and special projects.

Brown was with Dyal from 2011 to 2016, founding and leading the firm's business services platform. Before then, he was a senior managing director with Bear Stearns Asset Management.

Action item: Learn more about Azimut Alternative Capital Partners [here](#).