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PRIVATE EQUITY ANALYST

SEPTEMBER 2019



The Legal Issue

PE Fights to Defend Its Public Image

Industry Mobilizes to Counter Fresh Onslaught of Criticism, Regulation
p. 8

INSIDE

Private-Equity Attorneys Weigh In on Current Regulatory Climate p.6

Startups Prep for More Regulations, Oversight p.14

Comment

- ▶ **Editor's Note**
Private Equity Fights to Protect Its Public Image, Again 3

Analysis

- ▶ **Top Story**
Private Equity Tries to Beat Back New Wave of Criticism 8
- ▶ **Features**
 - BlackRock Unit Gets Approval to Take Pamplona's Stake in Cybersecurity Company 4
 - The Verdict From Private-Equity Attorneys 6
 - PE Firms Brace for New Frontier in U.S. Data Privacy Regulation 12
 - Startups Prep for More Regulations and Oversight 14
- ▶ **Industry Data**
 - PE Firms Often Fall Short of Portfolio Company CFO Expectations 16
 - Secondary Volume Booms on Growth of Sponsor-Led Deals 16

News

- ▶ **Briefs**
 - Abraaj Fined \$315 Million in Dubai 17
 - SoftBank Lends Billions to Invest 17
 - Silicon Valley Bank Backs Techstars 18
 - Bain Vet Forms Seed Fund 19
 - PE Bonuses Seen Climbing 20

Fund News

- ▶ **The Roundup**
 - ArcLight Roundups \$2.2B So Far for Fund VII 21
 - Sun Capital Raises \$2.3B for Seventh Fund 22
 - Welsh Carson Collects \$4.3B for 13th Fund 22
 - Greenspring Seeks \$600M for Fourth Secondary Fund 23
 - Fifth Wall Raises \$503M for Second Fund 24
 - CVC Closes Second Long-Life Fund at €4.6B 25
 - Medicxi Closes Third Fund With €400M 26
- ▶ **Limited Partners**
 - Pennsylvania Pension Backs Platinum Equity Despite Prison-Reform Critics 28
 - Connecticut State Treasurer Shawn Wooden Pushes Diversification, Risk Management 29

Deals & Exits

- ▶ **LBO Focus**
 - Oil-and-Gas Firm Lime Rock Looks for Growth in Renewable Energy 30
 - In a Pricy Deal Environment, More Private-Equity Firms Sell to Themselves 31
- ▶ **VC Focus**
 - Vice Ventures: Investing in Good Companies Operating in 'Bad' Industries 33
 - A New Path for Broker-Dealers to Offer Some Digital-Token Trading Services 34

People

- ▶ **Comings & Goings**
David Tan, Chinta Bhagat, Nikhil Basu Trivedi 36



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Private Equity Fights to Protect Its Public Image, Again

As the U.S. prepares for another contentious presidential election, private equity is, once again, finding itself in the political hot seat.

In some ways, the rhetoric and public debate aimed at the industry is like a movie sequel, only one with the potential to be much larger and more dramatic than its predecessor.



Editor's Note

Back in the 2012 presidential election, when former Bain Capital executive Mitt Romney was the Republican

candidate, many of the public attacks seemed directed more specifically at Mr. Romney and Bain, with the industry itself more of an accessory to the perceived crimes.

As Chris Cumming writes in this month's cover story, "Private Equity Tries to Beat Back New Wave of Criticism" (page 8), this time around, private-equity firms, and the trade organizations that represent them, are preparing to defend against what feels like a much wider onslaught of public criticism and regulation. Most notable among them is the Stop Wall Street Looting Act of 2019, a bill introduced by Massachusetts Senator and presidential hopeful Elizabeth Warren that, if passed, would dramatically alter the industry, and, as some contend, the U.S. economy.

But bills like Sen. Warren's aren't the only regulatory challenges private-equity firms are wrestling with these days. As I report this month, California's Consumer Privacy Act, a sweeping consumer data protection law passed last year, has presaged a wave of proposed data privacy bills across the U.S. this year (see "PE Firms Brace for New Frontier in U.S. Data Privacy Regulation," on page 12). The industry is bracing for the impact of California's new law, which stands to affect not only how firms manage and value certain portfolio companies but also how they conduct their own operations.

Also in this legal-themed issue, private-equity attorneys weigh in on hot-button issues capturing their time and attention ("The Verdict From Private-Equity Attorneys," page 6). And venture reporter extraordinaire Marc Vartabedian analyzes how new technology introduced by startups has spawned fresh efforts from lawmakers to regulate that technology ("Startups Prep for More Regulations and Oversight," page 14).

Stay on the lookout for next month's technology-themed issue., when we not only dive into ways in which technology is shaping how firms invest but how they manage their own operations.

As always, we welcome your feedback and suggestions.

Sincerely,
Laura Kreutzer
Editor, Private Equity



BlackRock Unit Gets Approval to Take Pamplona's Stake in Cybersecurity Company

The Committee on Foreign Investment in the U.S. approved an unusual proposal by BlackRock to take over a stake in cybersecurity company Cofense from a Russia-linked private-equity firm. The move ended what had been a protracted bidding process for the stake

By WILLIAM LOUCH and DAWN LIM

A national-security panel that oversees foreign investment in U.S. businesses approved the transfer of a stake in cybersecurity company **Cofense Inc.** from a Russia-linked private-equity firm to funds managed by **BlackRock Inc.**

People familiar with the matter said the Committee on Foreign Investment in the U.S., known as Cfius, gave its approval to the deal in August.

The clearance removed one of the final obstacles in a protracted sale process that began last year, and concluded an unusual showdown between Cfius and **Pamplona Capital Management**, a private-equity firm with ties to Russians, including the businessman Mikhail Fridman.

Cfius ordered Pamplona to sell its minority stake in Cofense after officials raised national-security concerns about the amount of foreign money invested with Pamplona, given the sensitive nature of Cofense's business. Cofense said in late

August that BlackRock funds had taken over Pamplona's stake. No financial terms were disclosed.

Under the terms of the deal, no money will change hands now, The Wall Street Journal previously reported. Pamplona will retain a residual financial interest in the company and will be paid if shares in Cofense are sold in the future, according to people with knowledge of the deal.

The deal is designed to strip Pamplona's foreign backers of any ability to influence Cofense or gain access to sensitive information held by the company, the people familiar with the matter said.

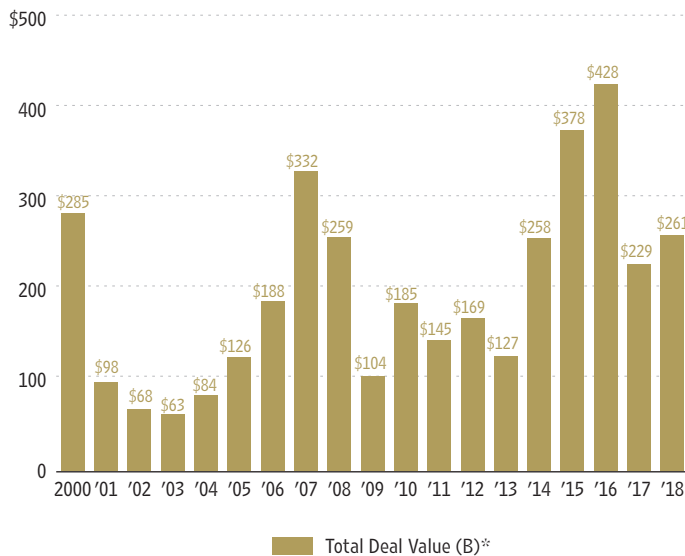
Cofense, based in Leesburg, Va., simulates and detects cyberattacks transmitted via email, and counts U.S. corporations among its customers.

BlackRock increased the existing Cofense stake held in funds run by its **Private Equity Partners** arm. The unit joined with Pamplona and other investors to buy Cofense in a deal announced back in February 2018.

BlackRock funds have taken a bigger ownership stake in cybersecurity firm Cofense.



M&A Deal Activity by Non-U.S. Investors in American Businesses



Source: Dealogic Ltd.
**For deals announced in each respective year.

Letting Pamplona retain a financial interest in Cofense after ordering it to sell marks a “unique if not unprecedented” move by Cfius, according to Brian Fleming, a trade and national security lawyer at Miller & Chevalier.

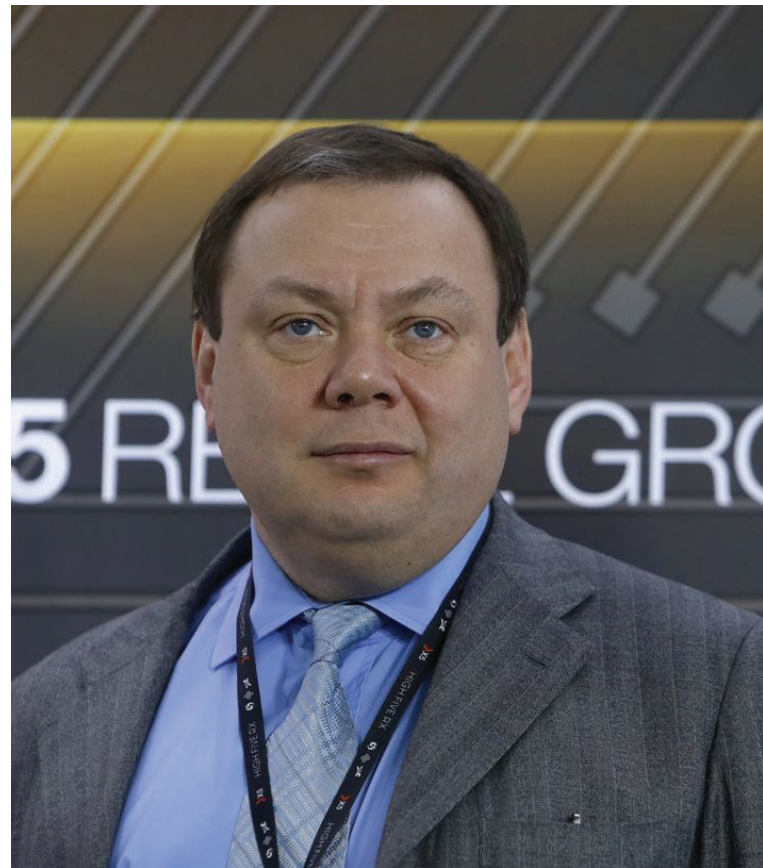
Usually, foreign investors have been required to sell their entire stakes in companies so that they lose access to what Cfius has deemed to be critical technology or information that could damage the U.S.

Mr. Fleming stressed that he didn’t know the particulars of the Cofense deal, but said he believed “the only way Cfius would sign off on a deal in which Pamplona has an economic interest is if all control goes away and all access to inside information goes away.”

Late last year, Cfius told Pamplona and Cofense to find a buyer for Pamplona’s stake and set a July 19 deadline for a sale. As part of the agreement, Pamplona resigned its seat on Cofense’s board and by October of last year had executed a voluntary agreement with the panel to sell its stake, which was transferred to a trustee, Cofense said.

When the July deadline passed with no sale, Cfius warned Cofense and Pamplona that they would face fines until finding a buyer. People familiar with the matter said Pamplona dragged out parts of the deal process, according to a previous Journal report.

Pacific Investment Management Co. had explored buying Pamplona’s stake, but weeks before the deadline decided not to proceed with deal talks, according to people with knowledge of that deal.



Mikhail Fridman is one of several wealthy Russian investors in Pamplona Capital Management, according to people familiar with the matter.

An initial bid for the Pamplona stake by BlackRock. was rejected as too low, other people said.

Another possible buyer group expressed interest in July, said some people familiar with the matter. An initial deal document included a clause preventing all parties from suing one another.

But when Pamplona pulled the clause, the buyer walked from that deal, the people added.

Pamplona reached out to BlackRock to restart talks in late July, one person added. The two firms finally reached an agreement in August.

Cofense was valued at around \$400 million last year. Recent bids valued the company at substantially less, the people said.

Pamplona was founded in 2005 by Alexander Knaster, the former chief executive of Russian bank Alfa Bank. Wealthy Russians who have invested in Pamplona funds include Mr. Fridman, who made his fortune in Russia’s retail, energy and telecommunications sectors.

A spokesman for Mr. Fridman has previously told the Journal that Mr. Fridman understood Cfius to be concerned about the general level of foreign money in Pamplona, and not specifically about Mr. Fridman’s involvement. ■

In Their Own Words

The Verdict From Private-Equity Attorneys

Over the past few years, the private-equity industry has had to contend with a host of political and regulatory changes that touch nearly every aspect of how firms do business, from raising funds and investing in deals to operating their own firms. Private Equity Analyst asked a handful of private-equity attorneys how they see changes in the regulatory and political environment affecting the industry

John LeClaire, Partner and Co-Chair of Private Equity, Goodwin Procter LLP

What one or two regulatory issues do you see as having the most impact on private-equity deal making these days?

There are political issues, and there are legal issues. No. 1 is the way that the red-and-blue-states conflict has manifested itself in approving or fighting certain deals. That political environment



adds a layer of complexity and uncertainty to deals when they are highly visible. When I started this job, environmental risk was a huge deal. People were transacting in Midwest manufacturing companies with plumes of PCBs in the ground. Thirty years on, people have cleaned up and are largely observant of environmental laws.

What's replaced that as a concern is Cfius [Committee on Foreign Investment in the U.S.] and getting Cfius approval if you're not a U.S. investor or buyer. The standards are pretty vague and the interpretations are going past pure technology for defense, so that law or regulation and the allocation of risk around it are very front and center.

How have you seen legal terms around deals evolve in this environment?

There are two branches to that question. These political and regulatory [issues] make the risk allocation in the diligence of those areas paramount and have a slowing effect on the pace of deals. But on the other side, as the ripping market continues, it's a seller's world. You see that now with certainty of execution and full underwriting by sponsors if a deal financing doesn't come through. [There's been] a complete abolition in five years of seller recourse in private deals.

Amanda McGrady Morrison, Partner, Ropes & Gray LLP

What one or two regulatory issues do you see as having the most impact on private-equity deal making these days?

There are a number of regulatory regimes that affect private-equity deal making, depending on which sector a deal falls within. But looking more broadly, three areas come to mind when looking at deals. In no particular order they are: Cfius and the new rules that have been coming out there, antitrust scrutiny, particularly around technology companies, and data privacy. We're keeping



an eye on the California Consumer Privacy Act, for example.

How do you see that new law affecting deal making?

It's a law that is in the process of being refined and doesn't go into effect until 2020, so I can't say it's driving a lot. But I do think people are starting to take into consideration what it's going to mean when [it comes] online. I think that private-equity firms will have to consider not only the compliance burden and the potential liability for breaches, but also the investment thesis basis of their deals and their ability to use data that contains information about California residents.

Michael Wolitzer, Head of Investment Funds Practice, Simpson Thacher & Bartlett LLP

If you had to pick one or two regulatory issues that are having the biggest effect on fund formation these days, what would they be and why?

The biggest issue with the SEC continues to be allocation expenses and other charges between portfolio companies and funds, on the one hand, and the management company on

the other. Although the SEC has become more balanced in its approach to the private-equity industry, the allocation of these charges needs to be permissible and clearly documented to



avoid issues with the SEC on an exam.

What fund terms do you see being most heavily negotiated between limited partners and general partners?

There has been an enhanced focus on the fiduciary duty of the manager in recent years. Many large LPs have made this an important point. In

fact, the Institutional Limited Partner Association has pursued legislative and regulatory initiatives in Washington in order to move the needle on this issue in the LPs' favor.

What is the biggest mistake you see first-time fund managers make when it comes to fund formation?

The biggest mistake is probably underestimating the complexity and timing of raising a first fund. Experienced LPs expect that the manager will have a sufficient team and systems in place to deal with their requirements. It can be a little bit of a chicken-and-egg problem for new managers, but ultimately in order to get the LPs in, the manager will need to be equipped to satisfy the needs of the LPs.

Ira Coleman, Chairman, McDermott Will & Emery LLP

If you had to pick one or two regulatory issues that you think are having the biggest effect on deal making right now, what would you choose and why?



We are seeing the more disciplined sponsors really digging in early on the core regulatory issues, which could be showstoppers. For example, the physician services (PPMs) subsector is white hot and, in our regulatory due diligence, we would triangulate on how the seller developed and implemented their patient-acquisition strategy. In other words,

are they compliant with the myriad of state and local laws designed to prevent fraud and abuse and kickbacks in setting up their physician arrangements?

In what ways do deal term negotiations differ, if at all, from the hot-button legal issues that dominated deal negotiations several years ago?

Both buyers and sellers are enjoying a greater level of comfort in closing deals thanks to 'reps and warranties insurance.' Five years ago, this was pretty rare, particularly in health-care deals, when the indemnification environment was significantly different. But we should caution that although many, if not most, deals use rep and warranties insurance, the 'other shoe has not yet dropped,' meaning that not many have been tested through claims and fewer still have been litigated.

Scott W. Naidech, Partner, Winston & Strawn LLP

If you had to pick one or two regulatory issues that are having the biggest effect on fund formation these days, what would they be and why?



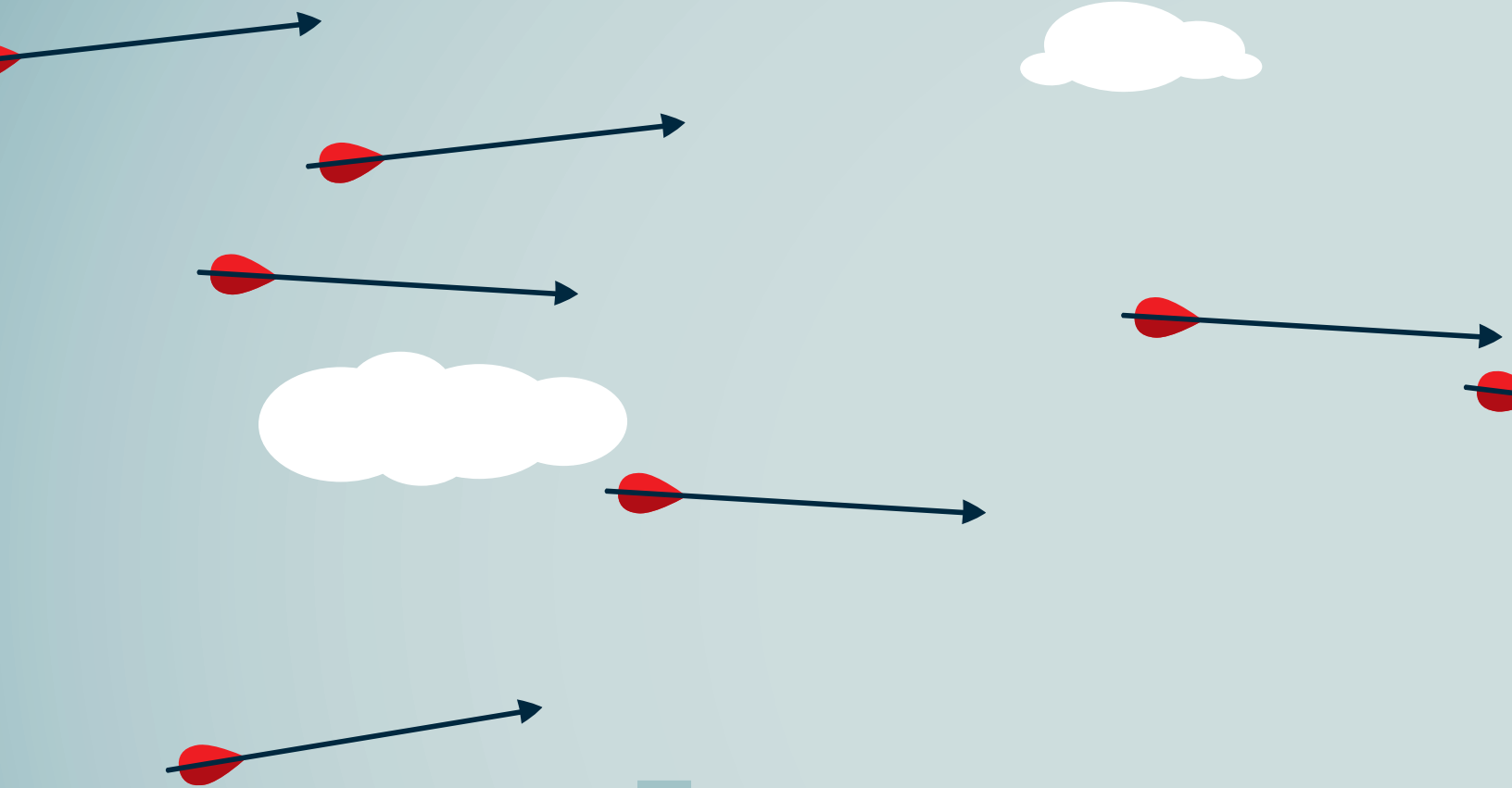
The SEC's continued focus on disclosure of conflicts, particularly in respect of fees and expenses. Pre-Dodd-Frank, fund formation was primarily a transactional matter, with fund formation documents being the result of negotiations between sponsors and investors. After Dodd-Frank, and with the increased focus on the private fund

industry by the SEC's Office of Compliance Inspections and Examinations, sponsors who are registered investment advisers can expect that their disclosure and marketing materials will receive regulatory scrutiny, with disclosure of conflicts of interest being a primary concern.

What is the biggest mistake you see first-time fund managers make when it comes to fund formation?

Waiting too long to reach out to counsel. Tax, regulatory, economic and other fund provisions have all drifted toward complexity over the years, and we see better results where we are able to work with clients early in the process to vet these issues, understand their business model and ensure that the transactional and disclosure documents match their strategy. That sounds self-serving coming from a lawyer, but the primary fund operating agreements will govern the fund procedures and economics through the entire life of the fund, and disclosure documents will always be subject to SEC review and scrutiny on examination. ■

—Compiled by Ted Bunker, Laura Cooper and Laura Kreutzer. Responses have been edited for clarity.



Private Equity Tries to Beat Back New Wave of Criticism

Lobbyists are working to combat a push for industry reform that has been energized by a newly proposed bill from Sen. Elizabeth Warren

By CHRIS CUMMING

After a hot summer for private equity, industry lobbyists want to turn down the temperature.

Criticism of private equity's practices and calls for reform are getting louder as the 2020 presidential campaign kicks into gear. Presidential candidate Sen. Elizabeth Warren (D., Mass.) in July put the industry on alert with a controversial bill targeting private equity's role in business closures and job losses. That bill helped feed a wave of protests and public calls from politicians and advocacy groups to rein in the industry.

Hoping to stave off political pressure for reform, private-equity trade groups are boosting their efforts to push back against critics.

The two largest trade groups, the **American Investment Council** and the **Association for Corporate Growth**, have stepped up efforts to press a pro-private-equity message both on Capitol Hill and in the public debate, representatives of the groups say.

"Anytime you go into a presidential election season, there's a lot more rhetoric and a lot louder noise around certain industries, and we wanted to be a loud voice in that debate," said Drew Maloney, chief executive of the American Investment Council, or AIC.

In addition to lobbying politicians, the AIC has in the past year or so expanded its campaign to defend private equity's public image. This summer, the trade group published op-eds and produced videos and reports emphasizing private equity's economic benefits—the industry's effect on local economies and how it helps the finances of state and local pension funds.

The AIC has also started deploying cash to favored candidates in the 2020 election, though so far on a modest scale. The trade group spent more than \$55,000 on the 2020 elections through





Presidential candidate Sen. Elizabeth Warren (D., Mass.)

July 31, including about \$30,000 in donations to 13 candidates, according to the Center for Responsive Politics. The trade group has given 78% of its contributions to Republicans.

The Association for Corporate Growth, or ACG, which represents midmarket private equity, this summer brought the chief executives of midmarket companies to Washington, D.C., to meet with lawmakers.

“Our goal is to take the rhetoric out and really tell the story on how value gets created in the middle market,” said Martin Okner, the incoming chairman of the ACG.

Sen. Warren’s Stop Wall Street Looting Act of 2019, which along with its companion bill in the House of Representatives is co-sponsored by 15 members of Congress, is seen as the biggest challenge. The bill would make firms liable for the debt of companies under their control, restrict dividend payments from portfolio companies to their owners, and put in place a slate of new protections for workers from bankrupt private equity-owned companies. It would also treat carried interest as normal income, a long-term goal of industry reformers.

The AIC called it an “extreme political plan” that would harm workers and the economy.

Sen. Warren’s plan is not expected to go anywhere given the current makeup of Congress. Still, it has helped amplify the chorus of criticism of the industry, mostly focused on bankruptcies and business closures. This pressure started rising after the bankruptcy of Toys “R” Us Inc. last year and has increased in recent months.

In June, Sen. Tammy Baldwin (D., Wis.) wrote a letter to **Sun Capital Partners** demanding the firm pay severance to the approximately 3,000 workers who lost their jobs due to the bankruptcy of ShopKo, a Wisconsin-based discount chain. In a statement, Sun Capital said it contributed \$15.5 million to ShopKo’s bankruptcy plan and expects a portion of that money will be used to pay the approximately \$3 million in severance claims.

Years of Attack, Reform and Rollback

For more than a decade, private-equity firms have weathered many calls for reform of their industry from politicians and other parts of the public. Below are a few recent milestones in the politics of private equity

2007

Hearings on private equity and the carried-interest tax treatment in both houses of Congress. The House of Representatives passes a bill to change the treatment, which dies in the Senate

2009

The Obama Administration budget proposals include a change to carried-interest treatment, an unsuccessful gesture at reform that it would repeat in future years

2010

The Dodd-Frank financial reform bill becomes law, requiring private-equity firms to register as advisors and placing them under the supervision of the Securities and Exchange Commission

2013

The SEC issues its first penalty against a private-equity firm under Dodd-Frank, beginning a wave of settlements largely focused on fee and expense violations

2016

Donald Trump and Hillary Clinton both campaign against the carried-interest treatment, vowing to eliminate it as president

In July, presidential candidate Sen. Bernie Sanders (D., Vt.) earned headlines for protesting the planned closing of **Hahnemann University Hospital** in Philadelphia by owner **Paladin Healthcare Capital**. Paladin didn't reply to a request for comment.

A little more than a week after that protest, a report that generated significant press coverage said private-equity firms caused 600,000 retail job losses over the past decade.

Industry trade groups assert the report is inaccurate and doesn't factor in other causes of the retail sector's trouble, such as the rise of e-commerce. Mr. Okner, of the ACG, says the attention paid to a few bankruptcies distorts the industry's record.

Failures like Toys "R" Us "represent a very small percentage of private equity-backed companies," he said.

Private equity's investments in the midmarket create growth and jobs, according to Mr. Okner. He thinks private equity needs to do a better job of publicizing facts about its investment activity to counteract the criticism.

"I think it's worthwhile for us as an industry to sound the alarm and start telling our story in a bigger way," Mr. Okner said.

This is hardly the first time private equity has found itself in a political storm. In 2007, Congress held hearings on how private equity affects workers and the House of Representatives passed a bill to change the carried-interest treatment, although it failed to become law. Anti-private-equity sentiment boiled up again during Mitt Romney's 2012 presidential bid as his opponents hammered his record at **Bain Capital**.

Private equity took some lumps in these debates but avoided fundamental changes to its business model. However, this time may be different. In recent years, a network of research and advocacy groups has developed to become an influential voice for reforming private equity and shaping the public narrative about how the industry operates.

These groups' research and activism are now being translated into concrete legislative proposals, posing a major challenge for private-equity trade groups.

Americans for Financial Reform, a policy-focused nonprofit that has been critical of private equity, is a strong supporter of the Stop Wall Street Looting Act. The group was founded in 2009 to help push for financial reform and is now a coalition of more than 200 organizations, including other advocacy groups, unions and community organizations.

The **Private Equity Stakeholder Project**, founded two years ago, produces research often critical of the industry, including the report tying private equity to huge retail job losses and an April piece on investments in single-family homes. The research work of another group, the **Center for Economic and Policy Research**, informed the proposals in the Stop Wall Street Looting Act, and the group's co-director, Eileen Appelbaum, wrote to Sen. Warren in support of the bill.

Both reformers and lobbyists agree that this ecosystem of groups critical of private equity makes the current moment of political pressure different from earlier ones.

Heather Slavkin Corzo, senior fellow with the Americans for Financial Reform and the AFL-CIO's director of capital-markets policy, said this is the first time there has been such a comprehensive public discussion about how private equity affects people throughout the economy.

"This moment is different from the past," she says.

Mr. Maloney, of the AIC, says his group's members see the current moment as potentially more dangerous than earlier eruptions of criticism. The debate taking place now could shape the policy-making agenda for years, he said.

"Elizabeth Warren is really the policy driver for the Democratic primary," he said. "Whether she's the nominee or not, her proposals will have a long life to them. That worries the business community and the financial-services sector and a lot of our folks." ■

2017

Tax-reform bill requires a three-year holding period for the preferable carried-interest tax treatment, a milder change than many in the industry feared

2018

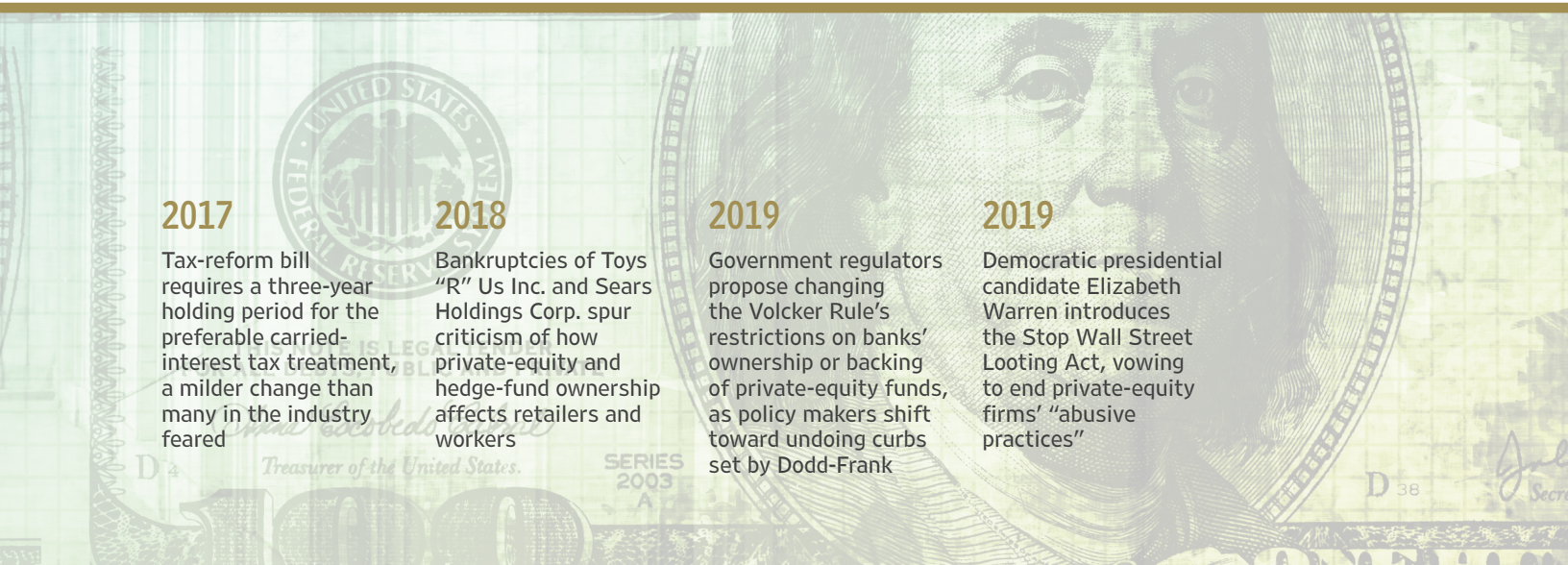
Bankruptcies of Toys "R" Us Inc. and Sears Holdings Corp. spur criticism of how private-equity and hedge-fund ownership affects retailers and workers

2019

Government regulators propose changing the Volcker Rule's restrictions on banks' ownership or backing of private-equity funds, as policy makers shift toward undoing curbs set by Dodd-Frank

2019

Democratic presidential candidate Elizabeth Warren introduces the Stop Wall Street Looting Act, vowing to end private-equity firms' "abusive practices"



PE Firms Brace for New Frontier in U.S. Data Privacy Regulation

Private-equity firms will have to adapt to a new era of data privacy legislation, as a fresh wave of privacy bills emerged across the U.S. in 2019, following the 2018 passage of the California Consumer Protection Act

By LAURA KREUTZER

Private-equity firms are bracing for new U.S. state regulations that will require firms themselves and their portfolio companies to better protect consumer information.

The California Consumer Privacy Act, which gives residents the right to know what data businesses collect about them as well as the ability to request that they delete the information, officially takes effect on Jan. 1, 2020. The legislation ushers in a new era of data privacy laws in the U.S. that promise to affect not only how firms manage their portfolio companies but also their own operations, according to legal experts and private-equity professionals. The law marks the first of what legal experts expect to be a wave of new data privacy legislation in the U.S. This year alone, at least 25 U.S. states and territories proposed bills aimed at protecting consumer data, according to the National Council of State Legislatures. (See map on facing page.)

“There are a couple of dozen bills. A lot of them have died for right now, but I don’t see this issue becoming less salient next year,” said Ed McNicholas, co-lead of the data privacy and cybersecurity practice at Ropes & Gray LLP. “Some bills could carry over. I can see people...saying, ‘Why should California have better privacy rights than people in Massachusetts or Connecticut?’”

Lawmakers have yet to clarify many details around the California law’s implementation, which makes building a compliance program for it challenging, legal experts say. However, they add that even with at least 20 amendments related to the bill, it promises to profoundly impact portfolio company due diligence and valuations, as well as data on investors or employees.

“There are a lot of things that have to be ironed out about the law, but one thing is for sure: It’s coming,” said W. Reece Hirsch, co-head of the privacy and cybersecurity practice at Morgan Lewis & Bockius LLP.

Legal experts predict that the new law stands to increase risks associated with portfolio companies that rely on the sale and collection of consumer data, such as targeted online

advertising, and potentially drive down valuations for those businesses.

“If the business model is driven by attracting people to a website and then selling their information, the CCPA may undercut the investment thesis of that company,” said Mr. McNicholas. “It’s putting privacy much higher on the agenda when looking at acquisitions and the value of portfolio companies. For some companies, CCPA can go straight to valuation.”

Some private-equity firms are already mapping the data footprints of their portfolio companies, so they can rate the various risk levels associated with each company and identify steps they need to take to bring those companies into compliance, attorneys say.

But experts say private-equity firms themselves should also perform similar risk assessments on their own management companies, mapping out the various forms of individual data they collect and making sure they take steps to comply with the new laws.

“They have to ask the same questions of themselves,” said David Larsen, managing director in the alternative asset advisory group at Duff & Phelps LLP. “If they’ve got high-net-worth individuals as limited partners or [if] they interact with other business partners, the regulations apply to them as the management company.”

Many firms with operations in Europe have already gone through such assessments to prepare themselves and their portfolios for compliance with the General Data Protection Regulation that went into effect in May 2018. But attorneys caution that such preparation, although helpful, isn’t sufficient.

“The two laws differ in many respects, so having prepared for GDPR compliance does not mean that you don’t have a lot of work to do,” Morgan Lewis’s Mr. Hirsch said.

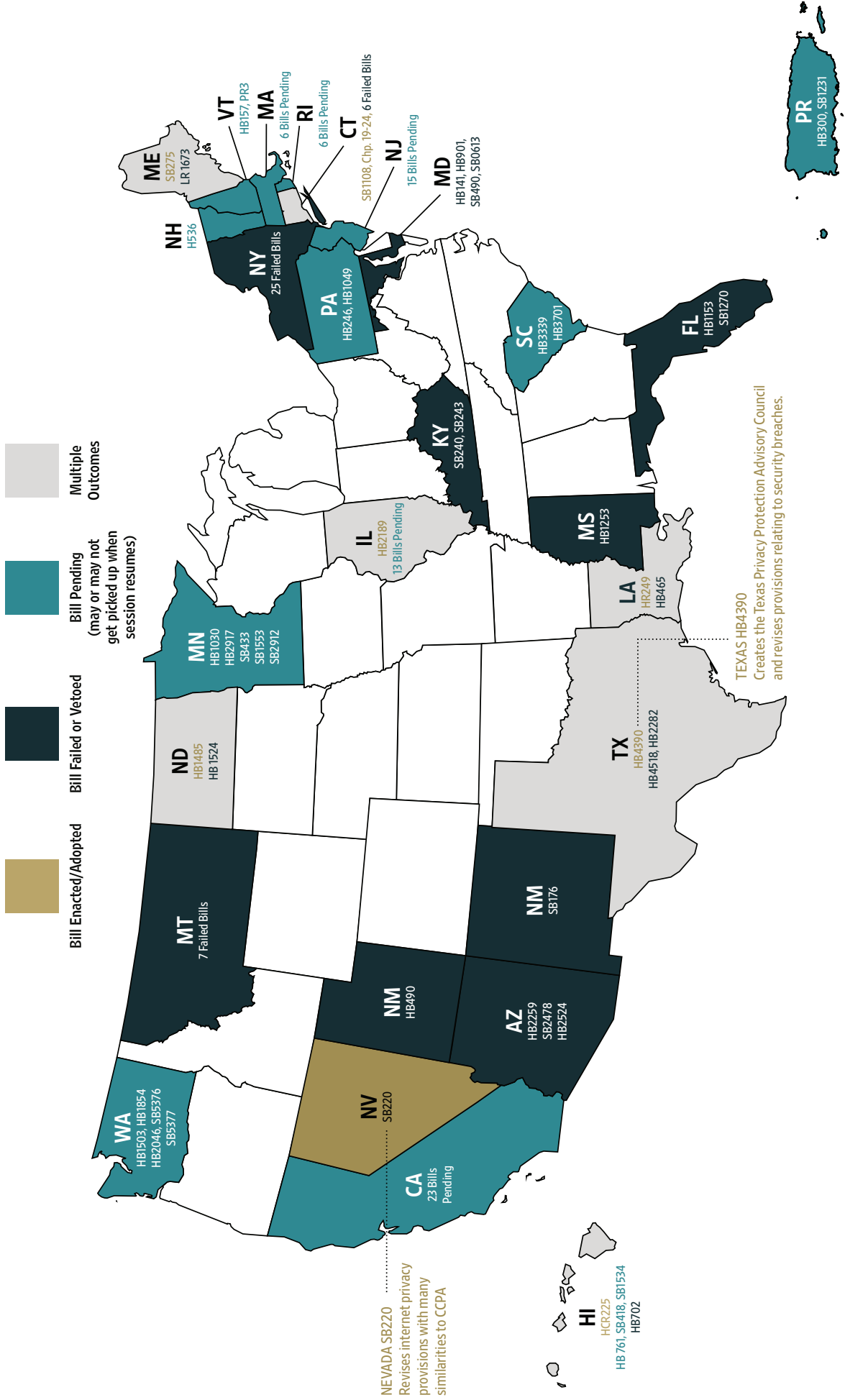
Such risk assessments are likely to grow in complexity as more states adopt their own data privacy laws. As they do, they threaten to create a complex patchwork of different regulations, which could increase pressure on federal lawmakers to pass a national data privacy law.

Experts, however, say the likelihood of a federal data privacy bill passing anytime soon remains low, particularly as the nation gears up for another presidential election.

“The right thing to do is to pass federal legislation that would establish uniformity. But that’s a very difficult endeavor, even if we were dealing with a fully functional Congress,” said Behnam Dayanim, partner at Paul Hastings LLP. ■

The U.S. Data Privacy Push

This year, U.S. privacy legislation took off with at least 25 states and U.S. territories proposing some sort of consumer privacy bill. Although many of the bills failed to pass, the push highlights the increased attention to privacy protection efforts across the U.S.





The Starship Technologies delivery robot during a demonstration in Richmond, Va.

Startups Prep for More Regulations and Oversight

Cities look to issue rules governing use of drones, scooters and robots in public spaces

By **MARC VARTABEDIAN**

For startups introducing new technology to cities, it's a new ballgame.

Cities and public officials are preparing for an onslaught of drones and robots in public spaces by issuing rules even before the launch of such technology, hoping to chart a more regulated path for mobility-device startups.

As scooter startups launch across U.S. cities, there were more than 44 e-scooter bills introduced in 26 states at the start of 2019, according to a report by the National Association of City Transportation Officials.

In San Francisco, which has served as ground zero for many rollouts, county supervisor Norman Yee is drafting legislation to create an "Office of Emerging Technology," said Erica Maybaum, a legislative aide for Mr. Yee. Startups would

need to get a green light from the agency and then coordinate with various local regulators before they are allowed to put any new technology into public spaces. The time it would take for startups to get the green light would likely depend on what technology they wanted to deploy, Ms. Maybaum said.

Cities such as San Francisco have tightly controlled the scooter rollout with caps on fleet size and requirements for locking mechanisms. New York is considering a bill that would bar e-scooters in Manhattan, and leave it up to the city council and the transportation department to decide when, where and how many scooters to allow in the other boroughs. Chicago only recently began a limited pilot test.

"Cities are regulating scooters the way they wish they could have regulated [ride-hailing] companies," said Molly Turner, a former public policy executive at Airbnb Inc. and a lecturer at the University of California, Berkeley's Haas School of Business.

Among the lasting impressions that ride-hailing services such as **Uber Technologies Inc.** and Lyft Inc. have left on cities is how hard it is to regulate such technology after its launch.

'It's not 2008 anymore'

While only sporadic regulations exist on how scooters or robots can operate in public spaces, investors and startups are formulating business plans with the assumption that such rules could become broader and permanent.

Many worry that the costs of regulatory uncertainty and lengthy wait times for approvals could rack up for startups. Hardware-based businesses, particularly makers of robots or scooters, say it would be expensive to have products sitting idle while they wait for approvals.

"The smart ones realize it's not 2008 anymore," said Clara Brenner, co-founder and managing partner of **Urban Innovation Fund**, a San Francisco-based venture firm that targets startups focused on city innovation. Ms. Brenner was referring to the year before Uber launched its services.

Regulators are anxious to do a better job managing new tech than they did when companies such as Uber and Lyft were getting off the ground, Ms. Brenner said. Her firm often invests in companies with business or regulatory overlap with city government.

Uber and Lyft spokesmen declined to comment.

Investors also have reshaped their calculus. Venture capitalist Steve Westly, a former California fiscal and public lands regulator and current managing partner of **Westly Group**, says his team is assigning more weight to regulations that could alter business models.

"Are there headwinds or hurdles that aren't present today but are likely coming?" Mr. Westly said. "You'll see more firms hiring for skills in this regulatory background."

Working with lawmakers

Earlier in spring, in Washington state's capital building in Olympia, one of **Starship Technologies Inc.**'s cooler-sized robots rolled up to Gov. Jay Inslee, who was sitting at a table for a ceremony to sign a new regulation into law. Among other requirements, the law calls for remote human oversight of robots, a costly provision that **Amazon.com Inc.**, which is also testing robots in the state, opposed.

Washington State Rep. Shelley Kloba, who sponsored the bill, called Uber the "poster child" driving lawmakers' ramped-up efforts to regulate new technology. By contrast, she praised San Francisco-based Starship's cooperation and said it is important for tech companies and government to work together.

Bradley Tusk, a venture capitalist and political strategist who quarterbacked Uber's rollout, said while local authorities are ramping up regulatory efforts, young startups may opt to take a page out of Uber's playbook and go around them.

"It doesn't work for everyone," Mr. Tusk said. "Uber taught startups that you can push back."

In San Francisco, **Skip Transport Inc.** and **Scoot Networks Inc.** waited for city approval to deploy scooters even while competitors went ahead. Their patience paid off.

After hundreds of scooters flooded San Francisco streets during rollouts of multiple companies in spring 2018, the city temporarily banned scooter companies and made them all apply for permits. Last August, the city awarded permits only to Skip and Scoot, excluding others.

"The short-term gain is not worth the long-run loss," said Skip Chief Executive Sanjay Dastoor. ■



In San Francisco, Scoot Networks Inc. waited for city approval to deploy scooters even while competitors went ahead. It paid off.

Industry Data

PE Firms Often Fall Short of Portfolio Company CFO Expectations

Private-equity firms frequently tout the guidance and value they bring to the management teams of the companies they back. But a new survey reveals that many chief financial officers at those companies don't see the firms living up to the hype.

"The CFO office is increasingly becoming a much bigger strategic hub within any portfolio company," said Nick Leopard, founder and chief executive of private equity-focused consulting and technology firm **Accordion**, which surveyed 200 private-equity executives and portfolio company finance chiefs about their interactions. "The problem is there's a ton of misalignment."

Among the 100 private-equity professionals surveyed by Accordion, 92% said they believe they are living up to the expectations of their portfolio company CFOs. But just 29% of the 100 CFOs in the survey agree.

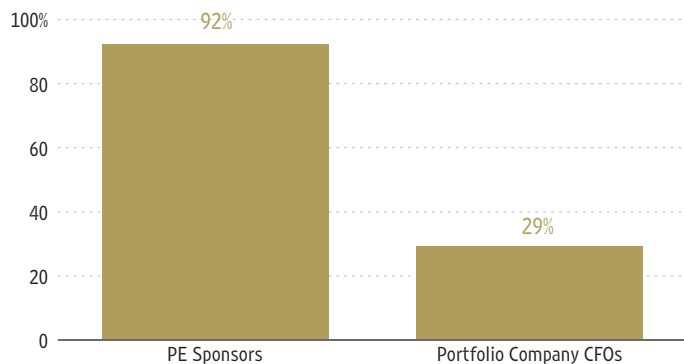
Such perception mismatches underscore the importance of communication between firms and CFOs and their teams. The financial professionals in portfolio companies have grown increasingly important to the development and execution of corporate strategic growth plans, executives say.

"You're in somewhat of a referee role between the founders and the PE firm, so a lot of times you have to manage expectations," said Tim Jaeger, finance chief at **Traditions Behavioral Health**, a **WindRose Health Investors**-backed mental health services provider.

Some of the disconnect can stem from different ideas about the sponsor's role and whether its approach fits the CFO's perceived needs, executives say. Some firms pursue an investment style that relies heavily on operational advice, while others adopt an investment model that leaves much of

PE Firms Fail to Meet CFO Expectations

Most private-equity sponsors believe they are meeting the expectations of their portfolio company CFOs, but many of the CFOs themselves disagree.



Source: Accordion

the operational decision-making to management. Among CFOs surveyed, 29%, or nearly a third, said they aren't working with their preferred private-equity investment model.

"Before going out to market, it's important to be very clear on what type of sponsor you want and what [their] involvement is going to be, because it's such an intimate relationship," Mr. Leopard said. Accordion itself is backed by midmarket firm **FFL Partners**, which invested in the company last year.

Bryan J. Carey, a consultant who's served as a CFO for numerous private equity-backed health-care companies as well as an operating partner for private-equity firms, said sponsors often aren't aware of the undue burdens their firms can place on CFOs.

That disconnect is especially evident when it comes to reporting. Among private-equity professionals surveyed by Accordion, 92% said they believe their reporting demands on CFOs are reasonable, while only 26% of CFOs surveyed agreed.

Secondary Volume Booms on Growth of Sponsor-Led Deals

The private-equity secondary market is busier than ever before, fueled by sponsor-led transactions and the growth of large deals.

Private-equity fund and asset sales amounted to \$42 billion in the first six months of 2019, according to a survey by advisory firm Evercore. That was 30% higher than in the first half of 2018, and puts this year on pace to exceed the record \$72 billion in secondary transactions last year.

Nigel Dawn, head of Evercore's private capital advisory group, expects full-year volume to be around \$90 billion to \$100 billion, based on the usual deal pacing for the second half of the year.

The market's fastest-growing sector was the general partner-led segment, the survey shows. GP-led deals accounted for 42% of volume in the first half, up from 29% over all of last year.

These types of deals, in which a GP gives investors a chance to cash out of an investment or reinvest often on new terms, were once used almost exclusively by firms that wanted to give a lifeline to struggling investments. But in recent years, they have become popular with healthy, well-performing sponsors.

The proportion of GP-led deals "is a fairly remarkable increase from a few years ago," Mr. Dawn said.

Typically, GP-led deals make up about one-third of deal volume, with limited partner-led sales accounting for two-thirds. Mr. Dawn expects the balance to shift toward that typical ratio by the end of the year, as more LP-led deals close.

With fundraising declining as investment increased, the amount of dry powder in the secondaries market declined to \$69 billion at the end of June from \$77 billion at the end of 2018, according to Evercore. That decline is likely to be short lived, with secondary buyers planning to raise \$67 billion in the next 12 months, the Evercore survey said. ■

Briefs

Abraaj Fined \$315 Million in Dubai

Dubai's financial regulator fined collapsed private-equity firm **Abraaj Group** \$314.6 million for deceiving investors and carrying out unauthorized activities, a record penalty in the Persian Gulf emirate. The Dubai Financial Services Authority's fine marked another blow for Abraaj, the largest private-equity firm in the Middle East with almost \$14 billion in stated assets until its meltdown last year. The Bill and Melinda Gates Foundation, Bank of America Corp. and the U.S. government's Overseas Private Investment Corp. were among the investors in Abraaj's funds. Abraaj misused investors' funds to pay expenses and send money to some of its executives, said the regulator. It provided misleading financial information to conceal this activity, the regulator added. "Senior management rode roughshod over their compliance function and the misconduct and deceit were pervasive and persistent," DFSA Chief Executive Bryan Stirewalt said in a news release. "We will pursue the persons or entities who perpetrated this activity, including those who allowed this to happen through major corporate governance breaches, to the full extent of our powers."

Blackstone to Buy BC Stake

Blackstone Group Inc. is taking a stake in **BC Partners**, the latest in a string of deals for slices of buyout firms. Blackstone's **Strategic Capital Group**, which buys stakes in other private-equity firms, is investing €500 million (\$560 million) in BC Partners for a 10% to 15% stake, according to people familiar with the matter. Closely held BC Partners, a big European-U.S. buyout firm, will invest more than half of the money back into its business as it expands in real estate and credit and prepares to begin raising a new flagship private-equity fund, the people said. With large, established platforms for investing in real estate, credit and private equity, Blackstone can help

the firm build key relationships and understand best practices, BC Partners Chairman Raymond Svider said in a recent interview. BC Partners will also get access to Blackstone's purchasing group, allowing companies it owns to save money on goods and services, he said. The deal will provide BC Partners with so-called permanent capital, which it can use for long-term investment in the business, and, unlike most of the money raised from its fund investors, doesn't ultimately need to be returned. "In the context of growing the firm for the next 50 years, what you really want is permanent capital," Mr. Svider said.

SoftBank Lends Billions to Invest

SoftBank Group is leaning on its employees, including Chief Executive Masayoshi Son, for cash as the firm rushes to raise an ambitious technology fund amid volatile markets. The Japanese company plans to lend up to \$20 billion to its employees to buy stakes

"We will pursue the persons or entities who perpetrated this activity, including those who allowed this to happen through major corporate governance breaches, to the full extent of our powers."

—Dubai Financial Services Authority Chief Executive Bryan Stirewalt



in its second giant venture-capital fund, people familiar with the matter said. Mr. Son may account for as much as \$15 billion of that amount, some of the people said. At \$20 billion, the employee pool would represent nearly a fifth of the money that SoftBank said in July it had lined up for its second Vision Fund, a successor to a \$100 billion fund that launched in 2017 and is nearly spent. Adding in its own contribution to the second fund of \$38 billion, SoftBank could make up more than half of the money raised, far more than is typical for a fund sponsor. SoftBank said it has

Study Quantifies Effect of Subscription Lines

A new study—likely the first to quantify the much-debated effect of subscription lines of credit on private-equity fund performance—found SLCs boost internal rates of return by an average of 6.1 percentage points.

That finding suggests IRRs may be less reliable as a measure of fund performance than is customarily assumed. The study, "Distorting Private Equity Performance: The Rise of Fund Debt," also shows how funds are becoming more leveraged during a portion of their lives as they replace investor capital with debt, exposing firms to greater risk.

Subscription lines of credit are short-term bank loans that give private-equity firms more flexibility to invest their funds. The lines effectively reduce the frequency of capital calls to investors and make them more predictable. These loans also let firms seize deal opportunities that they otherwise might miss if they had to wait for capital to arrive from fund investors.

But by delaying capital calls, SLCs also shorten the time between when fund investors provide capital and when they get it back and that tends to increase funds' internal rates of return. In their study, finance professors James Albertus and Matthew Denes at Carnegie Mellon University's Tepper School of Business show that SLC use bumps up IRRs. Their 6.1 percentage point average impact figure came from studying fund data provided by Burgiss Group, which monitors investment administration and record-keeping activities for limited partners.

\$108 billion from investors including **Apple Inc.**, **Microsoft Corp.**, the government of Kazakhstan and half a dozen banks. Most investment funds simply give their employees a share of the profit as part of their compensation. But SoftBank is instead lending to staff—it has about 400 employees—to buy those stakes, charging around 5% interest and in most cases requiring little money down, said people familiar with the arrangement. It did the same thing for the first fund, which now includes about \$8 billion of employee money, those people said.

Silicon Valley Bank Backs Techstars

SVB Financial Group, the holding company of **Silicon Valley Bank**, is deepening its longtime partnership with accelerator and venture-capital firm **Techstars**. The company has led a \$42 million equity investment into the Boulder, Colo.-based firm, which operates accelerator programs and services for entrepreneurs around the world. **Foundry Group**, the venture firm founded in part by Techstars co-founder Brad Feld, also participated in the round alongside other existing investors. The deal represents SVB's first equity investment in an accelerator and builds on Techstars' existing relationship with the bank, which is one of the country's largest providers of funding and services to startups, venture capitalists and other private entities in the technology sector. John China, the president of SVB's funds-management arm, **SVB Capital**, said Techstars is one of several accelerators SVB works with in some form. He said the two have collaborated over the past 12 years on conferences, mentorship programs and access to one another's networks. But the direct investment is unique, Mr. China said, and was motivated by Techstars' wish to expand its business development efforts and global footprint. Techstars co-founder and co-Chief Executive David Cohen said the new funding brings the firm's total equity raised—for its operating balance sheet—to over \$70 million, and is planned for broad use across the firm's various operations.

LPs Optimistic Despite Geopolitical Uncertainty

Despite uncertainty around geopolitical events such as Brexit and a U.S. trade war with China, limited partners appear to remain largely optimistic in their outlook.

Eaton Partners LLC's LP Pulse Survey found surprising confidence among the institutional investors surveyed, adding that neither a hard Brexit in the U.K. nor an escalated U.S.-China trade conflict would affect plans to deploy capital in either country in the near future.

"The institutional investor seems nonplussed about the economic environment," said Peter Martenson, a partner at Eaton. "They're more positive than we thought they were."

Eaton Partners surveyed 50 private-equity investors at the end of June to get a read on the market, fund returns and the economy. The fund placement and advisory firm conducts annual surveys of LPs, but alters the questions every year to reflect relevant issues, according to Mr. Martenson.

Private-equity firms have continued to amass capital this year, though so far, 2019 has fallen short of breaking any fundraising records.

An earlier report published by data provider Preqin Ltd. found that second-quarter fundraising globally totaled \$109 billion, on par with the first quarter. However, the quarter saw 244 funds achieving a final close, compared with 399 funds closing in the same period last year and 503 during the second quarter of 2017.

Mr. Martenson said that he believes LPs are likely to keep allocations at the same level as in 2017 and 2018, with no major course changes in sight as of yet.

RBC Newcomer Charged

A new arrival to Wall Street and former student-body president at New York University's Stern School of Business was charged with insider trading tied to a \$1.7 billion buyout. Bill Tsai, a 23-year-old analyst at RBC Capital Markets, was arrested and charged with criminal securities fraud, according to federal prosecutors in New York. The Securities and Exchange Commission also sued Mr. Tsai on civil claims. Authorities allege that Mr. Tsai earned about \$99,000 by purchasing bullish options on **Electronics for Imaging Inc.** that rose in value after the company announced it would be acquired by private-equity firm **Siris Capital Group**. Mr. Tsai didn't disclose to RBC the account he used to buy the options, according to the SEC's complaint. An RBC spokeswoman confirmed that Mr. Tsai has worked for the bank in New York and said he has been suspended. Mr. Tsai worked on a team at RBC that focused on deals in the technology sector, according to court records. In March, he worked on a report that listed the potential buyout

of EFI by Siris Capital, the SEC alleged. RBC provided financing to Siris on the deal. Criminal insider trading carries a potential prison sentence. The SEC's lawsuit asks that Mr. Tsai give back any illegal profits and pay a civil fine.

Companies Try Out Venture Studios

Large corporations have jumped on a Silicon Valley approach to building startups and products: the venture studio. Studios' goal—often with the help of outside executives—is to develop digital strategies and companies that benefit the corporate parent, but without being hemmed in by red tape. The approach has been tried by banks Banco Bilbao Vizcaya Argentaria SA and Standard Chartered PLC as well as HeidelbergCement AG. Nontech companies see such studios as alternatives to accelerators and venture-capital units. Studios are more focused than accelerators, which accept outside ideas that may or may not pan out into something useful for the parent company, some executives say. Studios can more actively shape the

early direction of startups and give them access to big corporations' specialized market insights and data, unlike venture-capital units, which typically select startups that have already developed a product and a company direction. The studio model does come with one major challenge: It usually relies on the parent company, rather than entrepreneurs, to come up with the ideas and guidance to make the startups a success.



Salil Deshpande

Bain Vet Forms Seed Fund

Salil Deshpande, a partner at **Bain Capital Ventures**, is preparing to strike out on his own. Mr. Deshpande is working to establish a new venture-capital firm to invest in seed-stage software and cryptocurrency startups. He aims to raise \$100 million for the new fund, the name of which hasn't yet been determined, a person familiar with the situation said. Up to 20% of the new fund's investments would go into crypto startups, the person added. Bain Capital Ventures, where Mr. Deshpande has served as a partner since 2013, plans to invest in the fund as a limited partner. Mr. Deshpande wanted to spend more time on seed investing than made sense in a multistage fund such as Bain Capital Ventures, said Annis Steiner, the head of marketing at the venture firm. He also wanted to pursue cryptocurrency deals that didn't necessarily fall into the firm's domain, she added.

Black Addresses Epstein Ties

Leon Black, chief executive of **Apollo Global Management LLC**, said he doesn't think his previous association with Jeffrey Epstein, the disgraced financier who died in jail awaiting sex-trafficking charges, affects the firm's relationship with investors. Mr.

Epstein, who had pleaded not guilty to sex-trafficking counts stemming from what federal prosecutors alleged was a yearslong scheme to procure and sexually abuse dozens of girls, had provided tax and estate-planning advice to Mr. Black and his family office and foundation over the years. Mr. Black also made donations to foundations associated with Mr. Epstein and hosted him at Apollo's office as he pitched tax strategies for wealthy individuals, *The Wall Street Journal* reported.

BlackRock Trio Form Prysm

A trio of former **BlackRock Inc.** managers stepped away from the giant investment firm to set up their own shop as **Prysm Capital**, which aims to make growth investments in the technology, consumer and health-care sectors. Former BlackRock managing director Jay Park leads the new firm as managing partner in Princeton, N.J., while Matt Roberts, a BlackRock director in San Francisco before leaving, is now a Prysm partner in the firm's Bay Area office. Muhammad Mian, a BlackRock managing director by the time he left after nine years, is now a Prysm partner in Princeton.

Race Affects LP Choices, Study Says

Racial bias affects investment decisions made by limited partners when allocating assets, according to a study

from a research partnership initiated by **Illumen Capital**. The Stanford University research group called Sparq said that less than 1.3% of financial assets under management globally are overseen by women or people of color. The Sparq study showed that asset allocators "have trouble gauging the competence of racially diverse teams" running venture-capital funds and tend to rate white-led funds that perform well higher than black-led funds with similar results. When assessing weaker performers, allocators tend to rate black-led funds higher than white-led, but have little interest in putting money into poor performers regardless of management diversity, the study showed.

CSL Forms VC Arm

CSL Capital Management, a Houston-based investment firm focused on energy services and equipment businesses, has formed a venture-capital unit. **CSL Ventures** will make early-stage investments in technology businesses in the energy-services industry. The new strategy will be part of the firm's latest fund, CSL Energy Opportunities Fund III. Over the past year, CSL has hired three professionals to lead the initiative: Imran Kizilbash, the former head of Schlumberger Ltd.'s venture fund; Vasu Guruswamy, who was vice president of Schlumberger



Leon Black

Ltd.'s software division; and energy industry veteran Abhinav Jain.

PE Bonuses Seen Climbing

Johnson Associates, a compensation consulting firm in New York, said incentive pay in the private-equity and hedge-fund segments is likely to rise during the remainder of this year while holding steady or declining in most other areas of asset management as well as investment and commercial banking operations. Private-equity and hedge-fund incentives are expected to climb as much as 5%, the firm said, with private-equity fundraising continuing at a healthy pace even as "fluctuating markets have depressed exits." The technology and health-care sectors remain the most active for private-equity deals, Johnson added. In banking, incentive pay is likely to fall as much as 15% during the last six months of 2019, the firm said.

U.K. Intervenes in Inmarsat Buyout

The U.K. government plans to intervene in the proposed \$6 billion private equity-backed buyout of U.K. satellite communications company **Inmarsat PLC** to examine its national security impact. Jeremy Wright, the government minister responsible for telecommunications policy, issued a public-interest intervention notice after consulting with the U.K.'s secretary of state for

defense, the business secretary and the foreign secretary. Inmarsat is the U.K.'s largest satellite company and provides communications to the military as well as the shipping and aircraft industries. The action is the latest blow to buyout firms **Apax Partners** and **Warburg Pincus**, which lead the consortium that proposed taking Inmarsat private. After the Inmarsat deal was announced earlier this year, the Competition and Markets Authority, a U.K. watchdog, announced it was launching an investigation into its impact on competition. The consortium of buyers offered a series of legally binding commitments to help secure government support for the takeover. The pledges included keeping Inmarsat's network operations in the U.K. and preventing job cuts in some parts of the business, including its engineering group.

Subversive Capital Forms SPAC

Subversive Capital, an investment firm that provides financing and consultation services to startups in highly regulated industries such as cannabis and psychedelic substances, has raised \$575 million for a special-purpose acquisition company, Subversive Capital Acquisition Corp. The New York-based firm, which also has a venture fund and opportunity fund, closed the SPAC through an initial public offering on the Canadian NEO Exchange. The SPAC is intended for investments in private

and public companies operating in the cannabis industry, Subversive Partner Michael Auerbach said, adding that the SPAC also will merge with and acquire companies, and intend to take some companies public. Since its formation five years ago, Subversive has deployed more than \$50 million into startups including cannabis holdings company **Privateer Holdings Inc.**, psychedelic startups **Compass Pathways Ltd.** and **Atai Life Sciences AG**, and several drone and gaming companies. The firm's venture fund is still open and raising capital—the firm wouldn't disclose how much it had raised. Subversive also recently started raising an opportunity fund targeting \$300 million, said Mr. Auerbach. Similar to **Tusk Ventures** and **Vice Ventures**, which also invest in industries such as cannabis and gaming, Subversive was formed to help companies in complex or still-emerging regulatory areas secure capital without breaking laws.

Correction

Partners Group developed its own methodology to measure the impact of its deals. The original version of the article "Impact Investing Firms Develop Ways to Keep Score" (August 2019) incorrectly stated that Partners Group favors the approach used by another firm, **Actis**, to develop its impact methodology. Both firms follow a rating framework, but their methodologies are different. ■

Top Performers Are Systems With Less Than \$100 Billion

When it comes to building a private-equity portfolio it pays to be big, but maybe not too big.

The **Massachusetts Pension Reserves Investment Trust's** private-equity portfolio ranked as the best performer among U.S. public pension funds for the fourth straight year, according to a report by the American Investment Council, a private-equity trade organization.

The roughly \$72.2 billion state pension's private-equity portfolio produced a 13.6% annualized return over a 10-year period ending in June 2018, the best performance among a sample of 165 portfolios held by U.S. public pensions, the report shows.

Overall, private equity remained a top performer across the portfolios studied. The asset class produced a 10.2% median

annualized 10-year return compared with an 8.5% return from public equities, and 4.8% for each of fixed income and real estate.

However, none of the pension systems that manage the 10 largest private-equity portfolios by assets invested made it into the ranks of the top 10 performers, underscoring the challenges that some of the largest investors face putting large volumes of capital to work effectively.

All of the 10 best-performing portfolios are held by pensions with less than \$100 billion of total assets. The **School Employees Retirement System of Ohio**, which manages \$14.2 billion of assets, had the second best performing private-equity portfolio with a 13.3% 10-year annualized return, and the \$95.7 billion **Minnesota State Board of Investment** ranked third at 11.7%.

U.S. & Canada

Buyouts

► ArcLight Capital Partners, Boston

ArcLight Capital Partners has rounded up around \$2.2 billion so far for its latest flagship fund and its parallel vehicles, according to a filing with the Securities and Exchange Commission. It is unclear whether the latest amount represents a final closing. The amount raised so far for ArcLight Energy Partners Fund VII LP is less than half of the \$5.6 billion the firm raised for its sixth flagship energy fund in 2015.

► Argonaut Private Equity, Tulsa, Okla.

Argonaut Private Equity held a final closing on its fourth flagship fund at its \$400 million hard cap. The firm has already invested \$120 million of the fund in four companies. The firm focuses on the manufacturing and energy sectors.

► Brookfield Asset Management, Toronto

Brookfield Asset Management has collected at least \$8.3 billion so far for its latest flagship private-equity fund, according to a regulatory filing, more than double the size of the fund's \$4 billion predecessor, which closed in 2016. Although the filing doesn't specify a target for Brookfield Capital Partners V LP, a January diligence memo from the **New Jersey Division of Investment** indicated the fund's size was expected to range from \$8.5 billion to \$9 billion.

► Chicago Pacific Founders, Chicago

Health-care services-focused **Chicago Pacific Founders** has rounded up at least \$399.6 million for its second fund, according to a filing with the SEC. The amount doesn't include an unstated general-partner commitment, the filing said. The amount raised puts Chicago Pacific Founders Fund II-B LP roughly at a \$400 million offering amount indicated in the filing.

► Corsair Capital, New York

Corsair Capital has raised \$795.6 million for its fifth flagship fund, a regulatory filing showed. The total moves the firm closer to a \$1 billion target reported by Private Equity Analyst last year. The firm has surpassed the amount raised for its predecessor fund, for which it collected \$773.8 million in 2012. Fundraising for Corsair V Financial Services Capital Partners LP began about two years ago.

► Court Square Capital Partners, New York

Court Square Capital Partners has collected nearly \$2.1 billion so far for Court Square Capital Partners IV LP, an SEC filing shows. Limited partners that have disclosed commitments to the fund thus far include the **Los Angeles Fire and Police Pensions** and **Minnesota State Board of Investment**. Court Square targets North American companies with enterprise values between \$150 million and \$1.5 billion.

roundups

U.S. & CANADA

Buyouts

- 21 ArcLight Capital Partners
Argonaut Private Equity
Brookfield Asset Management
Chicago Pacific Founders
Corsair Capital
Court Square Capital Partners
Crossplane Capital
DW Healthcare Partners
- 22 Goldner Hawn
Inverness Graham Investments
Silver Oak Services Partners
Sun Capital Partners
Sunstone Partners
Trilantic North America
Varsity Healthcare Partners
VMG Partners
Welsh Carson Anderson & Stowe

Mezzanine & Other Debt

- 22 LCN Capital Partners
Partners for Growth
Brookfield Asset Management

Secondary

- 22 Blackstone Group Inc.
- 23 Brookfield Asset Management
Greenspring Associates
Hamilton Lane
RCP Advisors
TrueBridge Capital Partners

Venture Capital

- 24 ACME Capital
American Family Ventures
Brick & Mortar Ventures
Fifth Wall Ventures
Flare Capital Partners
Great Point Partners
Lux Capital
Novalis LifeSciences
Nyca Partners

24 Oak HC/FT

- Obvious Ventures
- OSF Ventures
- Pear Ventures
- Pelion Venture Partners
- 25 PowerPlant Ventures
Revolution LLC
River Cities Capital Funds
Sierra Ventures
SoftBank Group
Threshold Ventures
Trinity Ventures
Uncork Capital
Vida Ventures

EUROPE

Buyouts

- 25 CVC Capital Partners
Eurazeo
Paragon Partners

Mezzanine & Other Debt

- 25 Barings

Secondary

- 26 Actis
Blackstone Group Inc.
Glendower Capital

Venture Capital

- 26 Medicxi Ventures
Wellington Partners

ASIA & REST OF WORLD

Buyouts

- 26 Citic Capital Partners
Helios Investment Partners
Verod Capital Management

Secondary

- 26 Actis

Venture Capital

- 26 Joy Capital

► Crossplane Capital, Dallas

Crossplane Capital is about a third of the way to its fundraising target for its debut fund. Crossplane Capital Fund LP has raised \$93.8 million so far and is aiming for \$275 million, an SEC filing shows. The vehicle has received commitments from at least 32 investors so far.

► DW Healthcare Partners, Park City, Utah

DW Healthcare Partners has raised a fifth fund, closing on \$610 million of capital commitments for its DW Healthcare Partners V LP fund. The firm said the new fund increases its total capital under management to \$1.43 billion. The investment in one of the firm's 34 portfolio companies, **Cefaly Technology**, was made through the new fund.

► Goldner Hawn, Minneapolis

Goldner Hawn has collected at least \$182.2 million so far for Goldner Hawn Fund VII LP, according to an SEC filing. Goldner Hawn typically invests equity checks of \$10 million to \$30 million in platform deals ranging from \$25 million to \$150 million in size.

► Inverness Graham Investments, Newtown Square, Pa.

Inverness Graham Investments closed its fourth flagship fund at its hard cap of \$415 million in commitments, raising the funds in less than four months. The amount eclipsed its predecessor fund by 38%, Inverness Graham said by email. The firm focuses on technology-enabled businesses with enterprise values of less than \$100 million and high growth potential.

► Silver Oak Services Partners, Evanston, Ill.

Silver Oak Services Partners raised \$500 million for its Silver Oak Services Partners Fund IV LP. Silver Oak has now surpassed \$1.1 billion in assets under management. The firm focuses on control investments in targeted sectors of the business, health-care and consumer-services industries.

► Sun Capital Partners, Boca Raton, Fla.

Sun Capital Partners raised \$2.3 billion for its seventh fund, Sun Capital Partners VII LP, regulatory filings show. It initially targeted \$2.2 billion for the new vehicle. The firm raised \$2.1 billion for its sixth fund in 2014. Sun Capital typically invests in companies with between \$50 million and \$1.5 billion in revenue.

► Sunstone Partners, San Mateo, Calif.

Sunstone Partners, a firm focused on technology and technology-enabled services, is seeking \$375 million for Sunstone Partners II LP, according to an SEC filing. The offering amount indicated in the filing is larger than the firm's \$310 million debut fund.

► Trilantic North America, New York

Trilantic North America closed its sixth private-equity fund with \$2.75 billion to invest in companies in the business-services, energy and consumer sectors. Trilantic Capital Partners VI (North America) LP and parallel funds surpassed the target of \$2.25 billion to close at the hard cap. The latest vehicle is larger than its predecessor fifth fund, which collected \$2.2 billion in 2013.

► Varsity Healthcare Partners, Los Angeles

Health care-focused **Varsity Healthcare Partners** is seeking \$400 million for its third fund, according to SEC filings. The offering amount for Varsity Healthcare Partners III LP and a parallel vehicle is higher than the \$300 million the firm raised for its prior fund.

► VMG Partners, San Francisco

VMG Partners closed its inaugural VMG Catalyst LP fund with \$250 million. The firm focuses on small to midsize branded

consumer products companies in the U.S. and Canada. At the end of last year, the firm had about \$1.9 billion in assets under management focused on growth investments.

► Welsh Carson Anderson & Stowe, New York

Welsh Carson Anderson & Stowe closed the largest fund in its four-decade history, collecting \$4.3 billion for its 13th investment vehicle, according to people familiar with the situation. Welsh Carson, which invests exclusively in health care and technology, surpassed its \$3.5 billion target, collecting \$4 billion from limited partners and the balance from the firm, the people said, and substantially exceeded its previous fund. When Welsh Carson raised its 12th fund several years ago, it collected \$3.3 billion. The 12th fund is already producing an internal rate of return of 27%, according to documentation reviewed by The Wall Street Journal.

Mezzanine & Other Debt

► LCN Capital Partners, New York

Edward LaPuma's **LCN Capital Partners** has begun fundraising for a new fund, LCN North American Fund III LP, and has collected at least \$139.3 million toward a \$500 million goal, according to a regulatory report. Mr. LaPuma, the partner with a controlling interest in the firm he co-founded, is a former head of real-estate investment trust firm W.P. Carey Inc.'s international arm.

► Partners for Growth, Tiburon, Calif.

Partners for Growth, a custom debt firm that focuses on financing growth businesses, is trying to raise \$300 million for its sixth fund, a regulatory filing shows. The firm closed its fifth fund in September 2017 with \$276 million in commitments. Partners for Growth targets loans of \$1 million to \$15 million for revenue-stage growth companies.

► Brookfield Asset Management, Toronto

Brookfield Asset Management held a first close during the second quarter on \$1 billion for its special opportunities fund. The fund is designed to let Brookfield invest "outside of the investment mandates of our existing funds," the firm said in an earnings news release. It's just one of several new strategies the firm has launched in the past year, including two "long-life" funds aimed at making long-term investments.

Secondary, Fund of Funds and Other

► Blackstone Group Inc., New York

Blackstone Group Inc. closed on \$14 billion for its first permanent-capital infrastructure fund, a vehicle that can write \$1 billion-plus checks and structure long-term investments with no end date. The fund is Blackstone's first fund in a strategy that is expected to total \$40 billion in

committed capital within a decade, according to a person familiar with the strategy. Fundraising kicked off with a \$7 billion commitment from the **Public Investment Fund** of Saudi Arabia, the person added.

► Brookfield Asset Management Inc., Toronto

Brookfield Asset Management Inc.'s back-to-basics "long-life" infrastructure fund has raised at least \$1.6 billion, a regulatory filing shows. Brookfield Super-Core Infrastructure Partners LP is the firm's second "perpetual" strategy, following a fund focused on U.S. real-estate investments. The infrastructure fund had raised about \$1 billion at its first close in December, firm executives have said.

► Greenspring Associates, Owings Mills, Md.

Greenspring Associates is seeking \$600 million for its fourth secondary fund, according to SEC filings. The new secondary fund pitch comes around six months after the firm raised just shy of \$1 billion for Greenspring Global Partners IX LP, a global diversified fund earmarked for venture-capital funds, direct investments and secondary deals.

► Hamilton Lane, Bala Cynwyd, Pa.

Hamilton Lane has rounded up at least \$235 million so far for its latest fund of funds raised from union affiliates of the

United Brotherhood of Carpenters, according to a regulatory filing. The filing for Hamilton Lane-Carpenters Partnership Fund V LP appeared roughly a decade after the firm raised \$532 million for its first fund of funds focused on Carpenters union pension plans. The firm raised nearly \$300 million for its fourth carpenter's fund of funds in 2017.

► RCP Advisors, Chicago

RCP Advisors has rounded up at least \$182 million thus far for its latest midmarket fund of funds, according to an SEC filing. RCP Fund XIV LP has a \$250 million target, although the fund can raise up to \$400 million, according to the filing. RCP targets U.S. firms that raise individual funds with between \$250 million and \$1 billion of committed capital.

► TrueBridge Capital Partners, Chapel Hill, N.C.

TrueBridge Capital Partners is seeking \$575 million for its latest venture-capital fund of funds, according to a regulatory filing. The offering amount for TrueBridge Capital Partners Fund VI LP and its parallel vehicles exceeds the \$450 million the firm raised for the fund of fund's predecessor last year. That fund had a \$375 million target. Investors that disclosed commitments to the prior fund include the **Florida State Board of Administration** and the **University of Vermont and State Agricultural College**.

Market Monitor

Welsh Carson Anderson & Stowe's 13th investment vehicle was the largest fund closed overall over the last 33 days. Welsh Carson Anderson & Stowe XIII, the largest in the New York firm's four-decade history, collected \$4.3 billion. Investors who made commitments to the latest pool include the California State Teachers' Retirement System, the Minnesota State Board of Investment and the Board of Education Retirement System of the City of New York. The other top three buyout funds closed this month, Eurazeo Capital IV, CITIC Capital China Partners IV – USD and Trilantic Capital Partners VI North America, all amassed more than \$2 billion each.

Largest Buyout Funds Closed in Most Recent Month

Fund Name	Region	Fund Manager	Fund Size (M)
Welsh, Carson, Anderson & Stowe XIII	North America	Welsh Carson Anderson & Stowe	\$4,000
Eurazeo Capital IV	Europe	Eurazeo	\$2,814
CITIC Capital China Partners IV - USD	Asia	CITIC Capital	\$2,800
Trilantic Capital Partners VI North America	North America	Trilantic North America	\$2,750
Oakley Capital Private Equity IV	Europe	Oakley Capital	\$1,643

Largest VC Funds Closed in Most Recent Month

Fund Name	Region	Fund Manager	Fund Size (M)
Oak HC/FT Partners Fund III	North America	Oak HC/FT Partners	\$800
Coatue Early Stage Fund	North America	Coatue Management	\$700
Vida Ventures II	North America	Vida Ventures	\$600
Lux Ventures VI	North America	Lux Capital Management	\$500
Medixi III	Europe	Medixi Ventures	\$450

Source: Preqin Ltd. As of Aug. 19..

2019 Funds Through Mid-August

Type of Fund	Number	Amount (B)*
Buyout	140	\$171
Growth	92	\$67.3
Venture Capital	424	\$54.8
Funds of Funds	23	\$4.8
Secondaries	12	\$16.6
Other Private Equity	61	\$17.3
Total	754	\$332.1

Source: Preqin Ltd. As of Aug. 19. Totals rounded to one decimal place.

Venture Capital

► ACME Capital, San Francisco

ACME Capital is seeking to raise \$200 million for its third fund, according to a regulatory filing. The firm counts **Airbnb Inc.**, women's health startup **Pill Club** and safe-driving technology provider **Zendrive Inc.** in its portfolio.

► American Family Ventures, Madison, Wis.

American Family Ventures, the venture-capital arm of American Family Mutual Insurance Co., raised \$162.5 million toward a targeted \$200 million third fund, according to a regulatory filing. The firm's recent investments include car insurance startups **Clearcover Inc.** and **Avinew**.

► Brick & Mortar Ventures, San Francisco

Brick & Mortar Ventures raised a \$97 million fund targeting the construction, engineering and architecture sectors. Backed by large construction companies including **Ardex GmbH** and Mexican concrete company **Cemex SAB**, the fund has already invested in 16 startups since January 2018. The firm targets startup investments in the seed and Series A stages, and write checks for between \$1 million and \$4 million.

► Fifth Wall Ventures, Los Angeles

Fifth Wall Ventures raised \$503 million for its second fund focused on real-estate technology. The firm raised the fund from 50 strategic investors including **CBRE**, **Cushman & Wakefield**, **Equity Residential**, **Essent**, **Hines** and **Host Hotels & Resorts**. The firm previously raised \$212 million for its last fund in 2017.

► Flare Capital Partners, Boston

Flare Capital Partners raised \$255 million for its second venture-capital fund, drawing financial and strategic investors to a vehicle aimed at startups seeking to bring innovation to the business of health care. Flare raised \$200 million for its debut fund in 2015 and surpassed its \$200 million goal for the new partnership, Flare Capital Partners II LP, which closed earlier this month, said co-founder and General Partner Michael Greeley.

► Great Point Partners, Greenwich, Conn.

Health-care investor **Great Point Partners** closed its latest buyout fund at its hard cap of \$306 million. Great Point Partners III LP beat its \$250 million target and raised more than its predecessor fund, which closed in 2013 with \$215 million. The firm invests between \$7 million and \$50 million in companies generating between \$10 million and \$100 million of revenue and \$2 million to \$12 million in earnings before interest, taxes, depreciation and amortization.

► Lux Capital, New York

Lux Capital raised more than \$1 billion to invest in startups that are implementing burgeoning technology such as artificial intelligence in the traditional sciences. The firm

said it closed two new funds: a \$500 million vehicle to target early-stage startups, and \$550 million for more developed, or growth-stage, companies.

► Novalis LifeSciences, Hampton, N.H.

Novalis LifeSciences raised \$85 million for its first fund focused on life-sciences companies. The firm said it would invest Novalis LifeSciences Investments I LP in between eight and 12 companies in sectors such as drug discovery, life science tools, genomics, synthetic biology and diagnostics.

► Nyca Partners, New York

Nyca Partners closed its third fund with \$210 million in commitments. The firm raised \$140 million for Fund II in 2016. Nyca's recent investments include asset management startup **Ethic Inc.** and customer experience services provider **Boomtown**.

► Oak HC/FT, Greenwich, Conn.

Oak HC/FT secured \$800 million for its largest venture fund targeting companies seeking to make the medical and financial sectors operate more effectively. Three veterans of **Oak Investment Partners**—Annie Lamont, Andrew Adams and Patricia Kemp—co-founded Oak HC/FT in 2014. They raised \$500 million for their debut fund that year and a \$600 million second fund in 2017.

► Obvious Ventures, San Francisco

Obvious Ventures has raised \$154 million toward its third fund, according to a regulatory filing. The firm invests in startups that aim to improve health, environmental sustainability and social responsibility. Obvious raised its first and second funds at \$123 million and \$192 million, respectively. The firm didn't disclose its goal for Obvious Ventures III LP.

► OSF Ventures, Peoria, Ill.

OSF HealthCare's corporate investment arm, **OSF Ventures**, launched a second venture-capital fund with \$75 million in commitments, the same amount raised by OSF Ventures' first venture fund in 2016. The firm's portfolio includes women's pelvic health startup **Renovia Inc.** and virtual mental health professional staffing provider **Regroup Therapy Inc.**

► Pear Ventures, Palo Alto, Calif.

Pear Ventures seeks to raise up to \$155 million for its third main fund, according to a regulatory filing. No commitments have been received for the fund, Pear Ventures III LP. Pear changed its name from Pejman Mar Ventures in 2016 when it announced a \$75 million second fund. The firm makes early-stage investments from the preseed through Series A stages.

► Pelion Venture Partners, Salt Lake City

Pelion Venture Partners seeks to raise \$250 million for its seventh fund, according to a regulatory filing. The firm closed its sixth fund with \$205 million in 2015. Recent investments include **MX**, **Astound** and **Weave**.

► **PowerPlant Ventures, Hermosa Beach, Calif.**

PowerPlant Ventures closed on \$165 million for its second fund, which the firm's partners said was oversubscribed by \$65 million. Partner Dan Gluck said PowerPlant, an investor in vegan burger startup **Beyond Meat Inc.**, could have easily raised upward of \$200 million for PowerPlant Ventures II LP if it had let all interested investors in on the fund. Mr. Gluck said investor interest in the plant-based food sector had been increasing since PowerPlant first entered the field in 2015 with its \$42 million debut fund.

► **Revolution LLC, Washington, D.C.**

Revolution LLC is raising money for its second fund for seed investments in startups outside of traditional venture capital-raising areas such as Silicon Valley and the Northeast, according to a regulatory filing. The firm is seeking \$150 million for Rise of the Rest Seed Fund II LP, the same amount raised by the first Rise of the Rest Seed Fund in 2017.

► **River Cities Capital Funds, Cincinnati**

River Cities Capital Funds raised \$200 million for its River Cities Capital Fund VI fund, according to a regulatory filing. The firm, which raised the same amount for its fifth fund in 2014, invests in the health-care and information technology sectors.

► **Sierra Ventures, San Mateo, Calif.**

Sierra Ventures will continue its investment focus on early-stage enterprise and emerging technology startups with its latest vehicle, Sierra Ventures XII LP, which closed with \$215 million in commitments from new and existing institutional investors. The firm closed its 11th fund in 2016 with \$170 million.

► **SoftBank Group, Tokyo**

Japan's **SoftBank Group Corp.** unveiled a second technology megafund even bigger than its nearly \$100 billion Vision Fund. Vision Fund 2, as the company is calling it, expects to gather some \$108 billion in capital from more than a dozen investors that have signed memorandums of understanding, ranging from **Apple Inc.** and **Microsoft Corp.** to Kazakhstan's sovereign-wealth fund, SoftBank said. Some \$38 billion of that capital will come from SoftBank itself, funded by proceeds from the first Vision Fund.

► **Threshold Ventures, Menlo Park, Calif.**

Threshold Ventures, which changed its name from DFJ in January, is seeking to raise \$250 million for its third fund, according to a regulatory filing. The firm's recent investments include artificial intelligence chip startup **Mythic Inc.** and corporate IT management software platform **Rippling Inc.**

► **Trinity Ventures, San Francisco**

Trinity Ventures is seeking to raise \$250 million for its 13th fund, according to a regulatory filing. Its recent investments include back-office support technology provider **Pipefy** and men's grooming management platform **Squire Technologies**.

► **Uncork Capital, San Francisco**

Uncork Capital raised a pair of new funds totaling \$200 million to further the firm's specialty in seed-stage deals while expanding its ability to invest in more mature startups. The first fund, Uncork VI LP, is a \$100 million vehicle focused on seed investments. The second, Uncork Plus II LP, raised \$100 million for Series C and D rounds for companies already in Uncork's portfolio, according to Managing Partner Jeff Clavier.

► **Vida Ventures, Boston**

Vida Ventures, which focuses on life-sciences startups, raised \$600 million for a second fund that more than doubles the amount raised by its predecessor. Vida raised a \$255 million debut fund in 2017 and has invested it in 14 companies so far. While it was investing its first fund, the firm found it didn't have as much influence on companies as larger investors, so it set out in April to raise \$450 million for Vida Ventures II LLC, co-founder and Senior Managing Director Fred Cohen said.

Europe

Buyouts

► **CVC Capital Partners, Luxembourg**

CVC Capital Partners closed its second long-life fund at €4.6 billion (\$5.15 billion), exceeding its target of €4 billion. CVC Strategic Opportunities II, like its predecessor, invests in long-term capital appreciation opportunities across Western Europe and North America that fall outside the firm's traditional strategies. Its maiden vehicle raised €3.9 billion in 2016.

► **Eurazeo, Paris**

Eurazeo raised €700 million (\$781.8 million) for its fourth midcap buyout fund. The fund is part of the firm's global €2.5 billion investment program. Eurazeo Capital IV, which is 40% larger than its predecessor, was backed by asset managers, sovereign funds, insurance companies, and families in North America (51%), Europe (36%) and Asia (13%).

► **Paragon Partners, Munich**

Paragon Partners closed its Paragon Fund III with €783 million (\$869 million), nearly double the size of its €412 million predecessor fund. The firm targets value-oriented control buyouts in Europe's German-speaking regions, involving companies with enterprise values ranging from €30 million to €250 million.

Mezzanine & Other Debt

► **Barings, Charlotte, N.C.**

Barings closed its Barings European Private Loan Fund II, raising €1.5 billion (\$1.7 billion) from 45 existing and

new institutional investors. BEPLF II is Barings's second commingled European senior loan fund and will invest primarily in European private senior secured corporate loans. The fund has already deployed nearly 50% of capital committed.

Secondary, Fund of Funds and Other

► Actis, London

Actis wrapped up fundraising for its first longer-duration infrastructure fund. Actis Long Life Infrastructure Fund LP collected \$1.23 billion in commitments and can deploy about \$2 billion in total funding, including co-investments. The fund had initially targeted \$2 billion. The fund has a 15-year life with a 10-year hold term, an Actis spokesman said.

► Blackstone Group Inc., New York

Blackstone Group Inc. has added more than \$1.14 billion to its private-equity strategy focused on longer-term holdings of European property, a 56% gain in just a year, SEC filings show. Blackstone Property Partners Europe LP fund and two related vehicles have raised more than \$3.17 billion. The fund reported \$1.64 billion in capital raised about a year ago, and combined with related vehicles, the total stood at about \$2.03 billion at that point.

► Glendower Capital, London

Glendower Capital held a final closing of its fourth global secondary private-equity fund, Glendower Capital Secondary Opportunities Fund IV LP. The fund closed at \$2.7 billion, above its initial hard cap. Glendower was established in 2017 by former members of the secondary investing team from **Deutsche Bank AG**.

Venture Capital

► Medicxi Ventures, London

Medicxi Ventures closed its third fund with €400 million (\$449 million). Limited partners in Medicxi III LP, which will invest in early- and late-stage biopharmaceutical companies, include **Novartis**, **Johnson & Johnson Innovation - JJDC Inc.**, other institutional investors, hospital foundations and medical institutions. Medicxi is currently investing from Medicxi Ventures 1, which focuses on early-stage companies, and Medicxi Growth 1, which focuses on later-stage businesses. The latter fund closed in 2017 with \$300 million.

► Wellington Partners, Munich

Wellington Partners secured €210 million (\$232.6 million) for its largest life-sciences fund. Wellington set out to raise up to €150 million for Wellington Partners Life Science Fund V GmbH, but surpassed that total with the help of new and returning investors. New backers include **KfW Capital** and **University of Texas/Texas A&M Investment Co.** The

new fund is more than double the size of its €85 million predecessor fund, which closed in 2013.

Asia & Rest of World

Buyouts

► Citic Capital Partners, Hong Kong

Citic Capital Partners closed its fourth China buyout fund at \$2.8 billion, reaching its hard cap. Citic Capital China Partners IV LP is the firm's largest fund to date. The fund has already acquired two companies, including **Hangzhou UCO Cosmetics**, an e-commerce-services provider to the beauty industry.

► Helios Investment Partners, London

Helios Investment Partners, which focuses on Africa, is seeking \$1.25 billion for its newest fund, according to a regulatory filing. The offering amount for Helios Investors IV LP is slightly larger than the \$1.1 billion the firm said it would close on for its third fund back in 2015.

► Verod Capital Management, Lagos

West Africa-focused **Verod Capital Management** has raised at least \$150 million in commitments for its Verod Fund III, including from the **European Investment Bank** and **African Development Bank**. The fund will invest in small and midsize enterprises in English-speaking areas of West Africa, with a focus on manufacturing, consumer goods, services, agriculture, education and health care.

Secondary, Fund of Funds and Other

► Actis, London

Actis plans to raise as much as \$600 million for a new Asian real-estate fund, according to a person familiar with the matter. The new fund marks Actis's latest foray into the Asian property market. In 2018, it bought **Standard Chartered PLC's** real-estate unit. In that deal, Actis acquired an Asian real-estate investment team, added two new offices in Shanghai and Seoul, and took over a portfolio of seven assets in Asia worth a total of around \$750 million.

Venture Capital

► Joy Capital, Beijing

Early- and growth-stage investor **Joy Capital** raised \$385 million for its third fund, Joy Capital III LP, according to a regulatory filing. A predecessor fund, Joy Capital II LP, was launched in August 2017 with a \$300 million target. Last summer, the firm participated in smart workspace startup **MyDreamPlus's** \$120 million Series C round. ■

Recently Disclosed LP Commitments

Limited Partner	Fund	Manager	Commitment (M)	Fund Target (M)
Board of Regents, University of Michigan	Kaszek Ventures IV LP and Kaszek Ventures Opportunity I LP	Kaszek Ventures	up to \$40	N/A
	Cresta Energy Easton Co-Invest I LP	Cresta Fund Management	up to \$30	N/A
Connecticut Retirement Plans and Trust Funds	Global Infrastructure Partners IV LP	Global Infrastructure Partners	up to \$200	\$17,500
	Vistria Fund III LP	Vistria Group	up to \$75	N/A
Delaware Public Employees' Retirement System	IDG Breyer Capital Fund LP	IDG Capital Partners/Breyer Capital	\$35	N/A
Detroit Policemen & Firemen Retirement System	Churchill Middle Market Senior Loan Fund III LP	Churchill Asset Management	\$15	N/A
	Comvest Direct Lending Fund V	Comvest Partners	\$15	N/A
	Crescent European Specialty Lending Fund II LP	Crescent Capital Group	\$15	N/A
Kansas Public Employees Retirement System	Montagu VI LP	Montagu Private Equity	up to \$50	N/A
Los Angeles County Employees Retirement Association	BlackFin Financial Services Fund III	BlackFin Capital Partners	up to \$100	N/A
Los Angeles Fire and Police Pensions	Oak HC/FT Partners III LP	Oak HC/FT	up to \$15	\$800**
	Pelion Ventures VII LP	Pelion Venture Partners	up to \$15	\$250
	Threshold Ventures III LP	Threshold Ventures	up to \$10	\$250
Los Angeles Water and Power Employees' Retirement Plan	Providence Strategic Growth IV LP	Providence Equity Partners	\$100	\$2,000
	Searchlight Capital III LP	Searchlight Capital Partners	\$100	\$2,750
New Mexico Educational Retirement Board	Five Point Energy Fund III LP	Five Point Energy	\$80	N/A
New York State Teachers' Retirement System	Pacific Equity Partners Fund VI LP	Pacific Equity Partners	up to A\$200	N/A
	Amulet Capital Fund II LP	Amulet Capital Partners	up to \$100	N/A
	Tailwater Energy Fund IV LP	Tailwater Capital	up to \$100	N/A
	Inflexion Strategic Partners LP	Inflexion Private Equity Partners	up to £75	N/A
	CapStreet V LP	CapStreet Group	up to \$75	\$499
	Inflexion Supplemental Fund V LP	Inflexion Private Equity Partners	up to £50	N/A**
Pennsylvania Public School Employees' Retirement System	Platinum Equity Capital Partners V LP	Platinum Equity	\$300	\$10,000
	SSG Capital Partners V LP	SSG Capital Partners	\$300	\$1,500
Pennsylvania State Employees' Retirement System	KPS Special Situations Fund V	KPS Capital Partners	up to \$75	N/A
	Wind Point Partners IX-A LP	Wind Point Partners	up to \$75	\$1,200
	KPS Special Situations Mid-Cap Fund LP	KPS Capital Partners	up to \$25	N/A
Sacramento County Employees' Retirement System	New Enterprise Associates 17 LP	New Enterprise Associates	\$20	\$3,600
San Jose Federated City Employees Retirement System	Cross Ocean USD ESS Fund III LP	Cross Ocean Partners	\$35	N/A
	Global Infrastructure Partners IV LP	Global Infrastructure Partners	\$3	\$17,500
State Board of Administration of Florida	Tiger Iron Special Opportunities Fund II	Tiger Iron Capital	\$300	N/A
	Advent Global Private Equity IX LP	Advent International	\$150	N/A
	Searchlight Capital III LP	Searchlight Capital Partners	\$150	\$2,750
	Blackstone Capital Partners VIII LP	Blackstone Group Inc.	\$100	\$20,000
	Trident VIII LP	Stone Point Capital	\$100	\$5,750
	Warburg Pincus China-Southeast Asia II LP	Warburg Pincus	\$68	\$4,250**
Teachers' Retirement System of Louisiana	Global Infrastructure Partners IV LP	Global Infrastructure Partners	up to \$50	\$17,500
Teacher Retirement System of Texas	Square Mile Media Co-Investment LP	Square Mile Capital Management	\$160	N/A
Texas County & District Retirement System	Veritas Capital Fund VII LP	Veritas Capital Fund Management	\$125	\$6,000
	ZMC III LP	ZMC Advisors	\$75	\$750
	Joy Capital III LP	Joy Capital	\$55	\$385**
	H.I.G. Middle Market LBO Fund III LP	H.I.G. Capital	\$50	\$3,000
	Sky9 Capital Fund IV LP	Sky9 Capital	\$30	N/A
	Threshold Ventures III LP	Threshold Ventures	\$30	\$250
	Sky9 Capital MVP Fund LP	Sky9 Capital	\$10	N/A
Ventura County Employees' Retirement Association	HarbourVest Real Assets Fund IV LP	HarbourVest Partners	\$50	N/A
Virginia Retirement System	TA XIII LP	TA Associates	\$325	\$7,500**
	Apax X LP	Apax Partners	\$250	\$10,500
	Trident VIII LP	Stone Point Capital	\$200	\$5,750
	Advent International GPE IX LP	Advent International	\$150	\$16,000**
	H.I.G. Middle Market LBO Fund III LP	H.I.G. Capital	\$90	\$3,000
	Advent Global Technology LP	Advent International	\$20	N/A

*Closed. N/A - not available. Source: Compiled by Private Equity Analyst from pension fund disclosures.
For more limited-partner commitments, view our interactive chart at wsj.com/lpcommitments

Pennsylvania Pension Backs Platinum Equity Despite Prison-Reform Critics

By CHRIS CUMMING

Pennsylvania's largest public pension is sticking with private-equity firm **Platinum Equity** in defiance of demands from prison-reform activists.

The board of the **Public School Employees' Retirement System of Pennsylvania**, known as PSERS, in early August voted to commit \$300 million to a new fund being raised by the Los Angeles-based firm.

Platinum is among PSERS's oldest private-equity relationships, and the single best performer in the entire portfolio, according to pension staff.

But at a PSERS's board meeting in May, representatives from activist groups said **Securus Technologies Inc.**, a Dallas-based prison-phone systems operator owned by Platinum, charges unfairly high prices for phone calls, which harms prisoners and their families. Platinum acknowledged some of the criticisms of Securus's practices, but said it has worked to reform the company since buying it in 2017.

The PSERS board delayed a vote on Platinum's new fund, which had been scheduled for May, to look into the matter. After hearing appeals from both Platinum and activists, the board on Aug. 9 voted 10 to 2 in favor of making the new investment, with one abstention.

"The PSERS Board of Trustees certainly listened and considered the input from the advocacy groups but on balance believed that the new Platinum fund is a good investment," a spokesman for the pension said in a statement. He added that PSERS's seat on the Platinum advisory board can help influence the firm's investment choices for the new fund.

Platinum Partner Mark Barnhill declined to comment about the vote or the criticism of the firm.

Bianca Tylek, executive director of the nonprofit prison-reform group **Worth Rises**, who earlier at the meeting urged the board not to back the fund, said the vote was "disappointing."

"We will continue to challenge PSERS and other pensions that are investing in the prison industrial complex," she said.

The \$300 million commitment is for Platinum's Platinum Equity Capital Partners V LP, which is seeking up to \$10 billion.

PSERS, which invests about \$57 billion on behalf of state schoolteachers, has backed Platinum for 15 years and committed more than \$1 billion to its funds, including those that bought Securus and student debt collector **Transworld Systems Inc.**, another focus of activist criticism.

Platinum is also the best-performing firm in the pension's private-markets portfolio, with a cumulative internal rate

of return of more than 30%, Charles Spiller, deputy chief investment officer for nontraditional investments at PSERS, said at the board meeting in Mechanicsburg, Pa.

Securus contracts with state and local corrections departments to operate phone systems used by prisoners to make calls outside jails and prisons.

At the meeting, Ms. Tylek called the phone rates charged by Securus "predatory," saying they are nearly double those of the nearest competitor.

The president of a Philadelphia union representing more than 2,000 school-cafeteria workers wrote a letter in support of the group's actions, urging the PSERS board not to back Platinum's new fund. A **Worth Rises** representative read the letter to the board at the meeting.

Mr. Barnhill told the PSERS board that criticism of Securus's practices has helped the firm identify things that need to be changed. He said Platinum's strategy is to buy "broken" companies and transform them, and that the Securus investment would follow the same pattern.

"When we acquired this business we understood that there were issues with it. We understood that this was a controversial business in a controversial industry," he said, according to a recording of his comments provided by a person at the public meeting.

"We also believed that we were in a position to transform this company, to turn it into a proper, responsible market leader, to end some of the practices that had been criticized in the past, and to improve the company," he said.

Mr. Barnhill also answered questions about Platinum's investment in **Transworld**, which it exited last year. A representative of the Private Equity Shareholder Project, a group that says its mission is to engage and connect investors with people affected by private equity, addressed the PSERS board about **Transworld's** practices.

In 2017, while **Transworld** was owned by Platinum, the company was fined \$2.5 million by the Consumer Financial Protection Bureau for filing illegal student loan debt collection lawsuits and other practices.

Mr. Barnhill told the board he knew **Transworld** had "issues" with its debt collection at the time of Platinum's 2014 investment but that he didn't know the depth of the problem. He said Platinum "cleaned house," replacing the company's management, and put new procedures in place.

Platinum ultimately lost about 93% of the value of its investment in **Transworld**, Mr. Spiller said. The company is now owned by **Clearlake Capital**, following a 2018 debt restructuring. ■

Connecticut State Treasurer Shawn Wooden Pushes Diversification, Risk Management

The newly elected Connecticut state treasurer sees maximizing returns and minimizing risks as the top priorities for the overall pension portfolio and the private-equity program

Shawn T. Wooden was elected the state treasurer of Connecticut, serving as the fiduciary of the state's roughly \$36 billion pension system. He stepped into the role in January, taking over from Denise Nappier who had run the state pension for nearly 20 years. Private Equity Analyst caught up with the new Treasurer to talk about his vision for the pension fund and its growing private-markets portfolio. Here are edited excerpts from a recent interview:



Q: Now that you have been in this position for about six months, what do you see as the top priorities for the overall pension portfolio and the private-equity program?

A: I want to maximize returns and minimize risks. Specifically within that, one of the first things I did was complete the new investment guidelines for the office. That was based on an

ongoing asset liability study that was completed. Once that was completed and approved, I would move forward with changing our asset allocation guidelines. With the change, we have a target of approximately \$900 million of annual commitments to smooth our deployment pace and achieve a target policy allocation of 10% for private equity. On a comparative basis, that was different from the prior couple of years. In 2017, we committed about \$746 million and in 2018, \$548 million.

Q: What initiatives are you working on over the coming months and years?

A: One has been increasing our commitment sizes and pacing, which we've done. Two, as a result of that, deploying more capital faster than we have done in recent years. Three, changing the [asset] mix. And one of the areas we have increased both in terms of our guidelines and our

actual activity is in infrastructure investments. That will be a key priority going forward, as well as implementing a co-investment program within our private-markets pool.

[Another initiative], which is pretty central to my view of managing investments going forward, is our hiring of a new chief risk officer. This will be the first time this office has such a role, but that is a critical new initiative on our part. Within the first 90 days, because this is a new role, the CRO would be focused on creating a structured, disciplined program of risk management that combines both human capital within the office and with technology.

Q: Why do you want to increase co-investments?

A: It's a lower cost way to deploy capital and generate return with investment partners that are already vetted and that we have confidence in. Frankly, not doing co-investments, I see it as leaving returns on the table. Every one of our private-market investment managers are potential candidates as co-investment partners. We're certainly not there yet because we are still creating and launching our co-investment program.

Q: What areas, whether by fund size, strategy or geography, would you like to expand within the portfolio?

A: We're certainly looking to increase our private-equity exposure into Europe, and also select international regions including Asia, Africa and Latin America. It's diversifying to manage risk and diversifying to take advantage of market opportunity where there is greater potential upside. Today we are 95% North America focused.

Q: How are you preparing the overall portfolio for a potential market downturn?

A: We've reduced the [actuarial] return assumption. Our assumptions are more aligned now with market expectations. We've already changed our asset allocation guidelines, which takes that into account. One of the changes has been to reduce our global public-equities exposure. Despite the fact that in recent times it's been a very robust performer, we're reducing that exposure and increasing our fixed-income exposure. [The] fixed-income allocation...will be used to help manage and account for market volatility going forward. ■

—Compiled by Isaac Taylor

LBO Focus

Oil-and-Gas Firm Lime Rock Looks for Growth in Renewable Energy

By LUIS GARCIA

After more than two decades investing in the oil-and-gas sector, **Lime Rock Management** is expanding into the low-carbon economy by creating a new venture to back renewable-energy businesses.

Lime Rock New Energy, which formed in July, is seeking \$600 million for its first fund. The firm plans to invest \$30 million to \$90 million per deal in providers of products or services to three sectors: renewable energy, energy efficiency and electric vehicles.

“When you say, ‘What led Lime Rock to launch this new strategy?’, it’s pretty simple,” said Mark McCall, the new fund’s managing director. “We see where the growth is in energy today, and it’s increasingly in these new-energy sectors that we’re focused on.”

To help find investment opportunities, the firm is assembling an advisory board with a roster of experts in different fields of the renewable-energy industry. The four-member board, which may grow to six, will be led by Ernest Moniz, who served as energy secretary under President Barack Obama during his second term, as chairman.

Lime Rock is rolling out its new strategy at a time when energy-focused firms face various challenges in the oil-and-gas industry, including volatile oil prices and a shortage of asset buyers.

Concerns about climate change also are increasing investors’ appetite for renewable energy. The five largest U.S. public pension funds committed nearly \$9 billion to renewable-energy funds last year, according to data provider Preqin Ltd.

“There are a lot of pressures currently as it relates to the traditional private-equity energy model,” said Christian Busken, director of real assets at investment consulting firm Fund Evaluation Group. “So firms are looking for ways that they can pivot into areas that could be more compelling to investors and complementary on some level to what they’re doing.”

Lime Rock was founded in 1998 by Jonathan Farber and John Reynolds, former energy-securities analysts at Goldman Sachs Group Inc. Based in Westport, Conn., with an office in Houston, the firm invests in the oil-and-gas sector through two entities that raise their own funds and are managed by separate teams: **Lime Rock Partners** backs producers and services companies, while **Lime Rock Resources** acquires and operates oil-and-gas fields. Between the two, Lime Rock has raised more than \$8.9 billion in capital commitments.

Lime Rock New Energy is managed by a team led by Mr. McCall and two other managing directors, Alexander Mishkin and Mark Lewis. Mr. McCall, who joined Lime Rock’s founders when they started the firm, left in 2015 to serve as executive director of the U.S. Department of Energy’s Loan Program Office under Mr. Moniz. Mr. McCall rejoined Lime Rock in 2017. Mr. Mishkin, who was Mr. McCall’s deputy and briefly replaced him in the Loan Program Office, joined the firm in 2017 as well.

Mr. Lewis has held top management positions at clean-energy companies and was previously a managing director of **MissionPoint Partners**, an impact-investment firm. Lime Rock hired him in December 2018.

Mr. Moniz, the former energy secretary, said he agreed to join Lime Rock New Energy’s advisory board because he was attracted to the idea of backing businesses operating in the low-carbon-economy supply chain.

“I think what’s interesting here is the opportunity to really fill a need that, in my view and in Mark’s view, does not have adequate focus today,” said Mr. Moniz, who also is a professor emeritus of physics and engineering systems at the Massachusetts Institute of Technology in Cambridge, Mass., and chief executive of Energy Futures Initiative, a nonprofit organization that promotes clean energy.

As examples of potential investment targets for the new strategy, Mr. McCall mentioned providers of maintenance, installation and energy-storage services, as well as companies that work on modernizing power grids or making buildings more energy-efficient.

“We’re growth investors, so we’re focused on companies that already have a product or service that customers want,” Mr. McCall said. “We’re not taking technology risks.”

Fund Evaluation’s Mr. Busken, who planned to meet executives of the new venture in late August, said he likes the idea of concentrating the new fund’s strategy on the “picks and shovels” of renewable energy. He added, however, that energy-focused firms venturing into the renewables sector will face uncertainties common to new strategies, including the strength of deal flow.

“What their deal pipeline looks like, how are they sourcing things, what’s their competitive advantage,” Mr. Busken said. “Those are some of the key questions that we will have when we delve into the strategy” with Lime Rock. ■

In a Pricy Deal Environment, More Private-Equity Firms Sell to Themselves

The trend of exiting an investment from one fund, but reinvesting out of a separate fund into the same company, has raised questions with limited partners

By LAURA COOPER

In February, Apax Partners found the perfect partner to buy its portfolio company AssuredPartners Inc. alongside fellow private-equity firm GTCR: itself.

GTCR, which had once owned AssuredPartners, acquired a sizable chunk of Apax's stake, returning roughly three-times the capital Apax had invested in the company out of Apax VIII, a \$7.5 billion fund the firm raised in 2012.

But as part of the AssuredPartners' recapitalization, Apax kept a minority stake in the insurance brokerage company, which it financed out of Apax IX, a roughly \$9.5 billion fund closed in 2016.

It is hardly unusual for private-equity firms to retain a small stake in well-performing assets, while also returning money to limited partners. But typically a firm would "roll" equity in the asset through the same fund it used to back the initial investment.

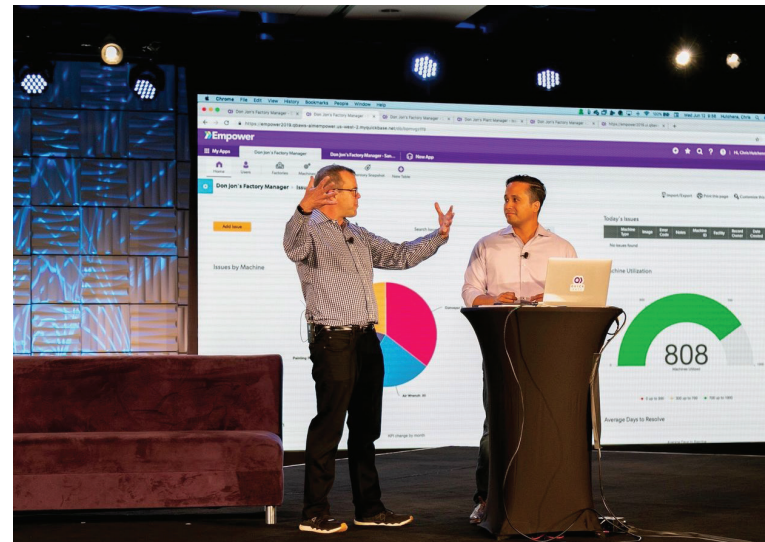
In recent years, however, more firms have leaned on newer funds to help facilitate exits from older ones. Examples include Apax, Vista Equity Partners and Welsh Carson Anderson & Stowe, among others.

Such deals allow firms to return capital to investors while holding onto promising companies for longer periods. But these transactions can also raise questions from limited partners about whether a general partner's motivations align with those of its LPs and whether some LPs are paying double layers of fees on the same deal.

Sticking with the familiar

A near-record pricing environment and a dearth of attractive assets on the market have prompted more firms to stick with familiar assets, industry participants say.

According to a report by investment bank UBS Switzerland AG, which cites data from S&P LCD and UBS, average purchase multiples during the first half of this year hit a record 11.2-times earnings before interest, taxes, depreciation and amortization. During the last market peak in 2007, average



Quick Base executives at an industry conference in June 2019.

purchase price multiples jumped to an average of 9.7-times Ebitda, the report said.

"The purchase prices are high, and it's harder to earn classic PE returns on larger assets," said Andrea Auerbach, the global head of private investments at consultancy Cambridge Associates. "This trend is not going away."

The industry learned this lesson clearly after the last buyout boom. Data from Cambridge found that 2006 vintage-year funds generated a net IRR pooled return of only 9.14% and a median of 11.94%, as of Aug. 19. Meanwhile, 2007 vintage-year funds had a pooled return of 12.50% and a median return of 12.56%, as of the same date.

Once a firm exits a company, it then faces the challenge of going back to the market to find new companies to buy that are often less familiar than the one it just sold and that are also likely to be fully priced.

"It's the devil you know versus the devil you don't know," Ms. Auerbach said. "In certain cases, the GP probably hired in the management team and chartered a course. They understand what has to get done."

LPs raise the red flag

Although GPs often see benefits in backing these types of deals, these transactions can raise concerns from their LPs.

For one, investors want assurance that valuations and terms of these transactions are fair to both the buyer and the seller, said Brian Gildea, head of investments at alternative asset

All in the Family

Recent examples of portfolio companies that PE firms are recapitalizing using newer funds:

AssuredPartners Inc.

Deal: Apax Partners is refinancing the company using Apax IX LP alongside new investor GTCR. The deal allows Apax's older fund, Apax VIII, to cash out of the deal.

Quick Base

Deal: In January, Vista Equity Partners said it would buy a stake in low-code software company Quick Base from Welsh Carson Anderson & Stowe. Welsh Carson—which originally backed the company in 2016 out of an earlier fund—reinvested in the company out of its new \$4.3 billion fund.

Aptean

Deal: Vista Equity Partners initially formed software company Aptean in 2012 out of its fourth flagship buyout fund. Earlier this year, the firm tapped its third Vista Foundation fund to recapitalize the company alongside TA Associates.

investment firm **Hamilton Lane**. Often, this is achieved through an arms-length sale process and by bringing in an independent new investor to verify the valuation at which the new deal is made. Most deals of this type that have been announced this year do have that type of third-party validation, investors say.

Mr. Gildea said LPs are also acutely interested in a firm's motivation for doing this type of deal. Typically, investors are more accepting if a GP wants to lock in a good return for earlier fund investors but also shows a willingness to align its financial interests with those of investors in the new fund.

"One of the big questions limited partners ask is 'What are you doing with the carry generated in the old fund?'" Mr. Gildea explained. "The limited partners like to hear the carry is being reinvested into the new deal."

Although private-equity firms certainly aren't required to reinvest their carry into the recapitalized portfolio company, a growing number of them choose to do so to build support with their LPs, according to Michael Krems, a managing director at institutional investor adviser TorreyCove Capital Partners.

Rolling the carry and the fees that they collected on the company back into the company often sends a positive signal to LPs that the firm is not putting its own financial interests above those of its LPs.

Mr. Krems added LPs also often want to know whether a deal has been struck at the best price possible, and what the process was like to find a third-party GP to enter the deal.

One general partner whose firm has done these types of deals said that these so-called "cross-fund deals" materialize when the company they've invested in previously "continues to have a very bright future and we want to participate in that future, but it's in an older fund, such that it's the right thing for that fund to create liquidity for investors."

The investor said his firm always rolls its carry into any cross-fund deals—an obvious show of support by the general partner about the future of the company. In addition to doing this, he said the firm consistently runs a formal sale process and conducts an independent analysis of the sale process and the new buyer and its price, along with the fund's limited-partner advisory committee.

"We don't do this very often. But when we do it, we think this process is essential to the integrity of the investment and maintaining our credibility," the general partner said.

Limited partners often ask for specific details around growth rates and the investment return profile, according to the investor. They also are interested in the process, such as the number of bidders, valuations and the terms of the new capital. He said investors always ask about rolling carry, and the firm agrees and rolls carry, marking a vote of confidence in the deal.

The test of time

Selling assets from older funds to newer ones has increased as part of an overall trend among private-equity firms to hold onto portfolio companies longer. Some firms are adopting other creative structures such as spinning out single assets into separate investment vehicles, often inviting interested LPs to directly invest in them.

Although these deals can raise eyebrows, it wasn't that long ago that portfolio company sales from one private-equity firm to another also prompted concerns among LPs, Ms. Auerbach said. Now, sponsor-to-sponsor deals account for a growing number of deals.

But unlike sponsor-to-sponsor deals, this recent wave of older-to-newer fund sales has yet to endure the test of a sustained market downturn. Presumably, a market downturn would put pressure on purchase price multiples for new assets, potentially weakening the motivation for holding onto older ones.

The general partner said high valuations and the late stage in this economic market—along with competition and compressed time frames for hold periods of companies—could be contributing to the number of these deals. However, he said there likely hasn't been any period of time when there were no deals of this sort at all.

For now, investors don't expect these deals to disappear anytime soon.

"I think we'll see more and more of these types of deals happening due to a maturing market and longer hold periods," said Mr. Gildea. "From the limited-partner perspective, they need to be structured in the right way, and it's critical that both sets of LPs are treated equitably in these scenarios." ■

VC Focus

Vice Ventures: Investing in Good Companies Operating in ‘Bad’ Industries

By YULIYA CHERNOVA

Stop moralizing. Indulge. Make money. That is how one venture capitalist is approaching investing in companies related to alcohol, tobacco, cannabis, betting and the like.

Catharine Dockery has launched **Vice Ventures Management** with a first-time fund to invest in seed stages of such startups, noting that it can be done in a socially responsible way that ensures adults consume “sin” products with moderation.

The New York firm’s logo shows a hand holding an apple, an allusion to the forbidden fruit in the Garden of Eden.

Ms. Dockery initially thought she would get started with a \$3 million fund, but she has now closed on \$25 million and is on her way to closing the fund at about \$50 million, she said. Family offices and individuals, including Marc Andreessen and Bradley Tusk, have invested.

She has already invested in six startups out of the fund, including **Drink Recess Inc.**, which sells beverages containing cannabidiol; **Indose Inc.**, a maker of cannabis vaporizers with precise dosing; and **Players’ Lounge Inc.**, where people can play videogames for cash winnings.

Ms. Dockery, 27, hopes that Vice Ventures can capture the type of startups that are often excluded by institutional investors with so-called vice clauses in their limited-partner agreements. But that clause is also making Ms. Dockery’s pitch difficult for institutional limited partners to pursue.

Institutional limited partners have stayed away from the fund so far, she said, especially when told that Vice Ventures does invest in nicotine.

“We are superexcited about harm-reduction nicotine,” Ms. Dockery said. There are companies producing nicotine gum or regulating the amount of nicotine. Their market expanded with the rise of vaping products from companies like Juul Labs Inc.

LPs that back venture firms may feel cannabis, tobacco and prison services are outside of their traditional tech focus, said one limited partner who isn’t a Vice Ventures investor. LPs would rather not face ethics questions about such deals from their own investors, the person said.

That kind of mind-set may also pose challenges to the startups Ms. Dockery backs as they try to raise follow-on funding with larger venture investors.

She expects successful exits and other measures of sin-industry performance will lead to a change of attitude about the sector among institutional investors.

As cannabis is legalized across more of the nation, the venture industry is slowly starting to test the market, with several new funds dedicated to the sector, such as **Presidio View Capital** and **Salveo Capital**.

Investors have been encouraged by deals such as Altria Group’s investment in Juul Labs that valued the e-cigarettes startup at \$38 billion and Diageo PLC’s purchase of tequila brand Casamigos for up to \$1 billion.

Still, regulatory challenges are a big part of the risk for Vice Ventures. San Francisco, for example, recently passed a ban on the sale of e-cigarettes such as Juul. CBD, or hemp, became legal in the U.S. with the passage of last year’s farm bill. But the U.S. Food and Drug Administration recently raised concerns about the lack of research around the potential impact of CBD-infused products, whether it be on pregnant women or its interaction with certain drugs.

Ms. Dockery says her approach is to invest in honest executive teams who would adapt to new regulations.

Ms. Dockery formerly managed personal investments for Andy Dunn, the founder of menswear brand Bonobos Inc. During that time she put \$5,000—her only savings, she says—into the first funding round for wine startup Bev. After Bonobos was acquired by Walmart Inc., Ms. Dockery followed Mr. Dunn to work there. Mr. Dunn declined to comment.

When she interviewed for jobs at venture firms, she realized she wouldn’t have the ability to invest in the very startups, like Bev, that she thought presented lucrative opportunities.

“A lot of it is stigmatized because people don’t know how to talk about it,” Ms. Dockery said.

Still, there are some areas that she won’t touch, such as guns and for-profit prisons.

Her first deal out of Vice Ventures was a special-purpose vehicle to invest in startup Drink Recess. At that time many venture firms were barred from investing because of vice clauses, said Benjamin Witte, chief executive of the company that goes by the name Recess.

Mr. Witte said he is seeing demand from traditional venture investors improve, especially after the recent farm bill legalized industrial hemp. But he believes investors such as Ms. Dockery who are focused on vice industries will continue to bring value.

“In my industry,” said Mr. Witte, “having investors who have a network of partners who are comfortable [with such products] is very valuable.” ■

A New Path for Broker-Dealers to Offer Some Digital-Token Trading Services

By YULIYA CHERNOVA

Moves by U.S. regulators could be just the ticket to encouraging more crypto offerings.

The Securities and Exchange Commission and Financial Industry Regulatory Authority in July offered a path forward for startups that help trade security tokens, even as the regulators are advancing new security tokens toward launch.

The regulatory agencies issued a joint statement that could help pave the way for broker-dealers to provide some digital-token trading services.

The SEC also cleared two venture-backed companies, **YouNow Inc.** and **Blockstack Inc.**, to make offerings for their digital tokens through Regulation A+, an alternative to a traditional initial public offering.

Venture investors and entrepreneurs believed digital tokens provided a new way to both finance businesses and develop new software. But many business plans were stymied by the

regulators' view of such digital tokens as securities—and they have been waiting for clarity on that question before moving forward to launch some services.

In order for new cryptocurrency companies to form and sell tokens in the U.S., two things must happen, observers say. Regulators must approve digital token securities so they can be issued legally. And there should be exchanges or other market mechanisms to trade such securities.

In July, the SEC made small steps toward both goals.

The SEC and Finra said broker-dealers that don't take custody of digital assets "do not raise the same level of concern," as those that do.

If regulators were to approve such noncustodial broker-dealer activities around digital assets, that would be progress toward the development of full-on crypto securities exchanges. But it would still be only limited progress.

"They're saying noncustodial brokers don't impose the same



risk or custody concerns” as those who do have custody, said Andy Bromberg, co-founder and president of token platform Coinlist. “There are a number of open questions around broker-dealers looking to custody digital asset securities.”

The regulations, however, don’t go far enough to enable what companies like digital-currency platforms Coinbase Inc., Circle Internet Financial Ltd. and Uphold Inc. hope to establish: fully functioning broker-dealers that could enable liquid trading of crypto assets.

“The announcement appears to open the door for private placements and secondary trading of regulated digital assets in the U.S., so long as broker-dealers are not custodial assets,” Josh Hawkins, an executive at Circle Internet Financial, wrote in an email. “This should enable the regulated digital asset market to finally get started,” Mr. Hawkins added.

“On the less positive side of this development, we believe custody is a critical aspect to truly leveraging the potential of blockchain technology and crypto assets. So in order to keep blockchain innovation in the U.S., it’s critical that we determine an actual path for broker-dealers to custody digital assets,” Mr. Hawkins wrote.

“We see it as a net positive,” said a spokesman for Coinbase, referring to the statement issued by the regulators in July. He declined to comment further. Coinbase provides trading as well as custody services, both of which were discussed in the SEC statement.

Jeremy Allaire, co-founder and chief executive of Circle, in an earlier interview with Private Equity Analyst said it would likely be a multiyear process to get there.

In addition to addressing the custody question, the SEC statement also highlighted issues that still need to be clarified by regulators, such as the security of assets and customer protection.

“[Custody] needs to be viewed in a way that’s linked to how a customer is protected and what the recourse is to customers under securities laws if the customers’ assets go missing,” said Jeff Bandman, a former Commodity Futures Trading Commission regulator and now CEO of startup BlockAgent Inc.

After a burst of activity in 2017, when hundreds of companies raised money by selling digital tokens in so-called initial coin offerings, the SEC reasserted its authority over such issuances, and this year the market slowed down to a trickle.

Many companies were spooked by the SEC going after some companies that conducted ICOs without registering with the regulator. Canadian company Kik Interactive, for example, which raised \$100 million in an ICO in 2017, is in a legal battle with the SEC, fighting the regulator’s allegations that it conducted an illegal offering.

To avoid such problems, several companies decided to forgo the traditional ICO route and instead get all the regulatory

SEC-Approved Digital Token Security Offerings

YOUNOW INC.

New York-based digital media startup that has developed a mobile live-streaming app

Venture Investors: Union Square Ventures, Venrock, Comcast Ventures and others

Tokens: Offers crypto tokens called Props that could be earned by its app users for activities such as creating or interacting with content.

BLOCKSTACK PBC

New York-based startup enabling the creation of decentralized applications, such as those for email, document sharing and blogging

Venture investors: Union Square Ventures, Lux Capital and Digital Currency Group

Tokens: Sells Stacks tokens that can be used as currency, such as to download new applications as well as make in-app payments.

approvals first. They are making sluggish process with creating compliant digital-token securities offerings.

YouNow and Blockstack are now in the process of conducting offerings of up to \$50 million of tokens to nonaccredited investors, all under the close watch of the SEC. YouNow is a digital media startup backed by **Union Square Ventures, Venrock, Comcast Ventures** and others. Blockstack is a developer of a computing network to enable decentralized applications and raised venture money from **Union Square Ventures, Lux Capital** and **Digital Currency Group**.

In YouNow’s case, the company’s tokens, Props, can be earned by users of social media apps, so that people who create new content can also earn Props, or a stake in the entire social network. The company hopes that the ability to earn tokens would attract content creators to its apps.

Even after approval, dealing with heavy SEC regulations is difficult, as indicated by a Blockstack blogpost in July that points out that SEC-approved offerings are very different from what cryptocurrency buyers have been used to.

“Whereas you might be used to quick, off-the-cuff answers from other crypto project sales, we may provide longer answers with supporting details because that is what it means to be transparent,” the blogpost said. “The level of transparency required means everything we say must be true and consistent with our SEC filing.”

But to enable a liquid crypto market in the U.S., regulators would need to approve both token offerings like these, as well as the trading infrastructure in which they could be exchanged. ■

—Tomio Geron contributed to this article.

Comings & Goings

▶ **TPG** hired **David Tan** from **KKR & Co.** to help expand its investment team in Asia. Mr. Tan will join TPG's Singapore office, where he will be responsible for sourcing deals in Southeast Asia. In his new role, Mr. Tan will work closely with Ganen Sarvananthan and Dominic Picone, two senior TPG executives also based in Asia.

▶ **Pacific Avenue Capital Partners** hired **Jason Leach** as a managing director and member of the firm's investment committee. Mr. Leach, who most recently was a principal at **Platinum Equity Partners**, will focus on deal sourcing and execution, as well as portfolio operations.

▶ Life-sciences investor **RiverVest Venture Partners** appointed **Derek Rapp** as managing director. Mr. Rapp was most recently president and chief executive of **JDRF**.

▶ **L Catterton** hired **Chinta Bhagat** as co-managing partner and head of the firm's Asia funds, joining Ravi Thakran in overseeing the Asia operation. He is expected to join the firm from **Khazanah Nasional Berhad**, the sovereign-wealth fund of Malaysia.

▶ **500 Startups** named **Courtney Powell** as the investor's chief operating officer, to manage day-to-day operations at the firm, including its corporate and government partnerships. Ms. Powell was the founder and CEO of **PublikDemand Inc.**, a startup that went through the 500 Startups accelerator in 2012.

▶ **Shasta Ventures** was set to lose its second managing director this summer with the planned departure of **Nikhil Basu Trivedi**. Mr. Trivedi, who focused on consumer deals, is leaving soon after the exit of Doug Pepper, who focused on software deals, for **Iconiq Capital**.

▶ **Ilan Stern**, previously a staffer at **General Catalyst** and **Soros Fund Management LLC**, has been hired to lead the family office of **WeWork Cos.** co-founder and Chief Executive Adam Neumann, according to a person familiar with the situation.

▶ **Upfront Ventures** hired **Aditi Maliwal** as a general partner. Ms. Maliwal previously was a product manager on the Next Billion Users team at Alphabet Inc.'s Google.

▶ **Sero Capital**, a technology-focused growth-equity firm launched earlier

this year, hired **Joel Horwitz** as a managing director. Mr. Horwitz previously was senior vice president of marketing at **WANdisco**.

▶ **Gemspring Capital** hired two managing directors, adding **Donald Gerne** to its investment team and **Charles Fraas** as head of portfolio operations. Mr. Gerne previously was a partner with **Metalmark Capital**, while Mr. Fraas led a boutique advisory firm.

▶ **Decibel**, an independent venture firm created by Cisco Systems Inc., appointed **Bhaskar Sunkara** as a venture partner. He was the founding chief technology officer of AppDynamics and served as the head of product and engineering since the founding of the company in 2008.

▶ **VC ROUNDUP: WestWave Capital** named Cisco Systems Inc. executive **Gaurav Manglik** a general partner...**Builders VC** appointed **Mark H. Goldstein**, who founded UCSF Health Hub and Bad Ass Advisors, as a general partner...**Floodgate Fund** hired **Shawn Xu** as a senior associate. He was previously a managing partner at **Dorm Room Fund**...**Camber Creek** said **Mitchell Schear** will join the firm as an executive partner. He was previously president of the Washington division of Vornado Realty Trust...**Villi Itchev** joined **Two Sigma Ventures** as a partner based in San Francisco. Mr. Itchev most recently was a partner at **August Capital**...**Menlo Ventures** hired **Jean-Paul Sanday** as its newest partner. He joins the firm from **Summit Partners**...**FirstMark Capital** hired **Adam Nelson** as a partner. He joins the firm from **Social Capital**, where he was a partner...**Sequoia Capital** named **Shaun Maguire** a partner on the firm's seed/early team. He joins the firm from **GV**.

▶ **LBO ROUNDUP: FS Investments** hired **David Heflin** as managing director and head of portfolio specialists. Mr. Heflin most recently was a senior client portfolio manager at **Goldman Sachs Asset Management**...**Triton Partners** hired **Koos van de Linde** to build a Benelux-area team for its new office in Amsterdam. He joins from **Bain Capital** in London, where he was a vice president...**17Capital** added **Richard Golaszewski** to its New York investment team, joining from Nomura Securities...**Norwest Equity Partners** brought on **Sundip Murthy** as a partner. He joins the firm from **Snow Phipps Group**, where he was a partner and led the consumer sector team...**3i Group** hired **Sander Ruijter** as a director on its Benelux team. Mr. Ruijter was previously a co-founder and managing partner at **Gate Invest**...**GI Partners** appointed **John Sheputis** as a managing director to lead its acquisition and development activities related to technology real estate. He is a former president of Infomart Data Centers. ■



Derek Rapp



Courtney Powell



Aditi Maliwal



Shawn Xu