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Growing frequency

Watch for more sovereign wealth funds to buy stakes in venerable LBO shops, says Palico's Antoine Dréan

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One week in late September saw two transactions come to light where sovereign wealth funds took minority stakes in the holding companies of large leveraged buyout shops. At both buyout shops targeted by the sovereign wealth funds, the performance of current investment vehicles has been patchier than the blemish-free returns of their previous ones.

The phenomenon of state-sponsored funds buying stakes in the holding companies of general partners is nothing new; it goes back to at least 2000, when the California Public Employees' Retirement System announced the purchase of 5.5 percent of The Carlyle Group. Pre-financial crisis, such purchases served to monetize a percentage of the GPs' stake, allowing fund managers to realize significant capital gains. Purchases also served as a valuation floor that was particularly useful ahead of an initial public offering. They have always burnished buyout shop brand. But more so than in the past, given today's cash-short limited partner universe, the sovereign wealth fund stamp-of-approval is a critical momentum builder when GPs are fundraising.

Sovereign wealth fund purchases are evidence of the relatively greater clout that large limited partners wield today - a frustrating fact for smaller LPs who won't get a cut of carry or access to coveted co-investment - but the reassuring imprimatur of such resource-rich investors leads to easier fundraising and, ideally, proprietary deal flow that can boost fund returns.

All signs point to these deals happening with growing frequency.

Antoine Dréan is the founder and chief executive of ***Palico****, the first electronic platform to win broker-dealer licenses for the full range of private equity fund investment options, including fundraising, secondaries and co-investment.*