OPALESQUE
PRIVATE EQUITY STRATEGIES

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Welcome to the latest issue of Private Equity Strategies. In this issue, we take a look at a few new approaches to private equity as well as some of the high-profile issues that have dominated the headlines in recent weeks.

We start things off with a brief look at the potential investor pitfalls of easy money in private equity.

Then, Steve Schoener, Chief Technology Officer, Eze Castle Integration has a piece on how private equity firms can deal with cyber-security issues. Tripp Baird, Managing Partner at the Builders Fund, dispells some of the myths around impact investing. In our dealmakers Q&A, we talk with cannabis investing firm MedMen.

We also have our regular features including regs watch, the data snapshot and quick hits.

I hope you enjoy the issue. If you have any story ideas reach out to mccann {at} opalesque.com

In This Issue

As Cheap Money Reigns, Private Equity Investors Eye Risks

As private equity transactions hit 2007 levels, some investors are starting to worry about risk. According to a Financial Times report released yesterday, buyout values are up some 25 percent in the first half of the year and worldwide M&A activity is valued at $2.4 trillion year-to-date in 2017, an increase of two percent over last year. On the surface, it may seem like investors are poised to cash in, but easy financing has prompted some industry watchers to warn about risk.

Earlier this month, Tom Wyss, a Senior Consultant on Aon Hewitt's private equity team wrote a short update on the growing use of lines of credit by GPs. He cautioned investors to take a closer look at the fine print during due diligence, as some GPs have started using lines of credit to finance operations and initial investments ahead of their first capital calls to investors. By calling capital later on in the process, GPs can inflate a fund's Internal Rate of Return (IRR), making it hard to assess performance.

"It is important to strip out the effect of credit lines when examining the performance of prior funds as usage will increase the IRR performance of prior funds both on an absolute and possibly on a relative basis," Wyss says, adding that when investors are assessing funds within the same vintage year, it is critical to note which firms use lines of credit and which do not, in order to maintain an apples to apples comparison.

Using lines of credit may also mean that GPs earn their carry sooner than they otherwise would. Typically, GPs gain access to carried interest once the IRR has cleared a certain threshold known as the hurdle rate. If a GP has used a line of credit early on in the fund lifecycle, he may make the hurdle rate faster without much in the way of real performance to show for it.

Peer pressure

As more GPs come to rely on lines of credit, it puts pressure on those that do not. Investment consultants often measure peer groups of funds using aggregate data, which could put GPs with lower initial IRRs at bottom of a group ranking, penalizing those GPs that don't use lines of credit at the start of a fund lifecycle. Investors have been dealing with a similar trend in the leveraged lending space for several years. So-called covenant-light loans have regained widespread use after hitting a brief speedbump during the immediate aftermath of the financial crisis. So much so, that a recent Bloomberg piece notes that there is now a stigma around safety. Investors use covenants as a check on the loan to ensure that they are repaid and so that they can step in if it starts to look like a company may default. In the current environment, if a deal comes through with covenants there is a concern that something is already wrong.

For investors in big funds and firms, the impact of these trends may be minimal as performance can be easier to assess and the risk of default is less likely. But in the mid-market and below, consultants like Aon's Wyss advise caution. In his update, Wyss says that investors may be able to guard against inflated IRR's by basing the hurdle rate on a combination of net fund level IRR and multiple. Clawback provisions should also be strengthened.

Investors also need to be very clear about what additional costs they might incur from fewer capital calls in the case of private equity funds and from fewer capital preservation rights in leveraged lending. If GPs move together when they do capital calls, investors could be faced with a significant outlay in order to meet requests that happened at the same time. There are also tax implications to consider if calls and distributions across funds start happening in lockstep. On the lending side, it may be more difficult for investors to recover losses if they bow to pressure to sign away covenant rights, especially in smaller companies where default risk is higher.

Why Private Equity Firms Are At Risk Of Cyber-attacks

By: Steve Schoener,
Chief Technology Officer,
Eze Castle Integration

Threats to private equity firms continue to grow both in scope and sophistication, meaning cyber strategies and practices require equally complex and progressive thought. Particularly for firms with limited (or nonexistent) security resources, it can be a daunting task to stay on top of the new and evolving risks at hand. But meticulous attention needs to be employed to mitigate these ongoing threats.

Today's hackers and cyber criminals are not only targeting IT systems, but humans as well. Attacks vary in target, size and motive, but all pose serious risks to a firm's wellbeing, thus it's vital to be aware of common threat types targeting the private equity community. Threats to be mindful of include:

-- Malware/ransomware: Virtual cyber threats impacting firm systems and networks often taking advantage of system flaws, legacy technology and/or insufficient cyber protections

--Social engineering: Deceptive scams, e.g. phishing, intended to manipulate users into divulging confidential data or leaving open a gateway to said information

--Insider threats: Unintentional or malicious activity on the part of a firm's employee resulting in leaked, stolen or compromised information

Unfortunately, once hackers gain access to your network or data, there is a lot that they can do to wreak havoc for private equity firms. In fact, with their roguish hands on the right information, the consequences can be downright destructive for a firm's business operations and integrity.

--With stolen passwords and login credentials, hackers can gain access to company systems and networks – not an insignificant feat.

--Inside your email, a hacker can access, send and delete communications at will, potentially intercepting company sensitive material, financial data or personal details they can use to further infiltrate networks.

--Hackers can decipher corporate hierarchies and send phishing emails to CFOs, for example, requesting fund transfers to provided bank account numbers.

--A stolen or shared password could also unlock access to a firm's CRM or accounting system, which may contain customer and potential customer information (company and personal), financials, investor analysis, sales forecasting data, etc.

--With their hands on deal flow or portfolio acquisition information, there's a chance hackers could disrupt M&As or deal agreements or leak company material in advance of confidential negotiations.

To gain a comprehensive understanding of your security posture, private equity firms should conduct a thorough risk assessment on a regular basis. Risk assessments can take many forms (technical, regulatory, etc.) and should be conducted broadly to ultimately provide firms with a roadmap that identifies risks and provides guidance on future security initiatives. What should those initiatives include?

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Private equity firms may consider exploring industry frameworks to design comprehensive cyber programs. For example, the National Institute of Standards in Technology (NIST), focuses on building layers of security across an organization. Their primary layers – Identify, Protect, Detect, Respond and Recover – assist firms in mapping specific strategies and safeguards to ensure a comprehensive security program is designed to mitigate risk. Following are a few examples of strategies and protections firms can employ to thwart cyber-attacks:

IDENTIFY: Risk assessments, network inventory audits

PROTECT: Access control, security awareness training, email and endpoint security, patch management, phishing simulations, encryption

DETECT: Intrusion detection/prevention, vulnerability assessments

RESPOND: Incident response, remediation

RECOVER: Backup services, disaster recovery

Mitigating Third Party Risk

Many private equity firms simply don't have the necessary technical resources in-house to manage technology and security – hence, outsourcing. Outsourcing all or portions of technology and cybersecurity responsibilities to a managed service provider provides many advantages. And while relying outsourcing is a welcome relief for many firms, it does not absolve them of their responsibility to manage their own firm's risk. In fact, on top of managing your own risk, outsourcing means also managing the risk associated with your vendors and service providers.

A few key reminders on vendor due diligence and risk management:
--Understand who your outsourced providers are, what functions they provide and what data/systems they have access to

--Consider sending requests for proposals (RFPs) and DDQ documentation requests to any third parties you are evaluating and review engaged third parties annually

--Continuously evaluate and monitor to ensure all parties are achieving their end goals and meeting expectations

--Understand Service Level Agreements (SLAs), contractual loopholes and any third party operational practices that may affect migration plans or your firm's security standing in the short and long-term.

Regs Watch: Brief Updates on Changes in Regulation for Private Equity

As journalists like me and lawyers have written ad nauseum, new and ever more regulations are in the pipeline for private equity and alternatives as a whole. Here we will hit on some of the cases of note and provide links to new guidance over the past month.

UK named second riskiest market amid regulatory pressures

The UK has been labelled the second riskiest market to do business in by asset management and private equity firms, according to a Ropes & Gray survey.
Read More.

Paper Examines How Private Equity Firms Mirror Investment Banks In Power And Influence

Private equity firms are more financially stable and pose less systemic risk to the global economy than the large investment banks that went defunct during the financial crisis of 2007-09, finds a new analysis by a financial regulation expert at Washington University in St. Louis School of Law.
Read More.

NYDFS proposed regulation addresses financial disclosure requirements for directors and officers of private equity buyers of insurance companies

New rules in New York could impact how private equity firms do business when it comes to M&A in the insurance industry.
Read more.

The Top Three Political Law Risks for Hedge Funds, Private Equity Funds, and Investment Firms

For each risk area, this advisory outlines steps and policies firms can adopt to avoid these common compliance traps.
Read more.

Insurers plan greater exposure to private assets

Low bond yields heighten appeal of private equity, real estate and infrastructure
Read more.

Scaling Private Equity Investment Systems

The Private Equity (PE) sector is enjoying strong growth and experiencing significant change, against a backdrop of a continued search for allocations outside the public equity markets, and a greater confidence in the PE asset class provided by regulatory and sector governance. Read more.

Trump Treasury's Blueprint for Financial Regulation in the Banking World

Administration officials are taking a deep look at banking regulations. The changes could impact private equity, private debt and leveraged lending. Read more.

The Top Ten Regulatory and Litigation Risks for Private Funds in 2017

The top of every private fund adviser's list for 2017 – and how to assess and manage the associated risks.
Read more.

LPC- CPA Global Inks High Leverage Deal

US buyout firm Leonard Green & Partners has picked lenders that are not subject to regulatory guidelines to lead a US$1.7bn debt financing backing its acquisition of UK intellectual property services provider CPA Global, banking sources have told Reuters.

None of the four lenders are subject to lending guidance from US or European regulators and can offer high leverage levels on buyout loans as a result. The deal is just the latest in an increasingly aggressive leveraged lending environment.

No Deal

The National Venture Capital Association is suing President Trump's administration over delays in the "startup visa" program that could keep founders out of the US.

The group says the postponement is already impacting members and could have a chilling effect on venture growth in the US.

How Private Equity Firms & Directors Can Protect Themselves From Liability Claims

by Gregory Walker FCII, ANZIIF (Fellow), ARM-E, Walker Risk Solutions

Private Equity-firms are known to be calculated risk takers; and this approach has rewarded many of them and their investors. But how much risk are they willing to take when it comes to their firm's liability? Or their own personal liability?

Many partners engaged in Private Equity-firms (PE-firms) take comfort knowing they will be protected by indemnification from the fund, the fund management company or a portfolio company if they are sued while serving on its board. But even if the fund can indemnify the individuals, PE-firms may be reluctant to do so, as settlements divert money from the fund and negatively impact internal rate of return. This could lead to disputes with fund investors. Such disputes are fairly seldom in the PE/VC community, but when they happen, they rarely arise early during a fund's life; rather they materialise when the fund is later stage and there is little capital left in the fund to satisfy indemnification obligations.

Following the AIFMD1 (and its Swiss equivalent) the liability exposure for PE-firms from their operational risks needs to be backed either by additional equity or by insurance. Having a choice, taking out insurance may be better aligned with the investors' interests: Invest Europe2 noted during the consultation process of the AIFMD, that 'professional indemnity insurance should be a far better policy instrument to meet the risks to investors from professional negligence than additional own funds. Requiring additional own funds reduces the ability of the owners of the AIFM (typically the senior management) to invest in the AIF. This has traditionally been a key mechanism, insisted on by private equity and venture capital AIF investors, for aligning the interests of investors and AIFM.'

The insurance market has responded to the needs of the PE/VC business by creating an industry-specific coverage (in the following called 'Venture Capital Liability Insurance' – VCAP insurance) in order to transfer these liability exposures. A properly structured VCAP policy not only can provide for defence of certain claims up to final adjudication but can also keep things from getting to that point by providing a funding source for a settlement that doesn't impact the fund. Most importantly for those persons holding director positions within the investment structure, VCAP insurance can protect individuals in situations where they would not have the benefit of indemnification from the fund (e.g. when the lawsuit is a derivate suit initiated by the investors or a regulatory agency or when the partnership agreement does not permit indemnification).

Liability claims against a PE-firm and its directors fall typically into one of the two categories: (1) 'Fund Management', creating an exposure to professional indemnity (PI) along the four stages of PE-investing as outlined below in section 1, and (2) 'Board Representation', a directors' & officers' liability exposure, which is examined in section 2. Next, section 3 illustrates how VCAP-insurance addresses these exposures and tells which pitfalls need to be avoided when implementing such insurance. Section 4 concludes.

Liability Exposures During the Investment Phases

Investors (the 'limited partners') expect the PE-firm (the 'general partner') to manage the fund according to guidelines outlined in private placement memorandums. When describing a typical investment process for direct investments, four stages with different core activities and their associated risks can be detected:

Stage 1 - Fund Raising

The solicitation process of institutional investors is started by presenting the investment strategy of the fund. It is key that all information needed to get a full and clear picture of the investments and the associated risks is presented to the potential investors. This presentation is done via road shows and outlined in writing in the prospectus or private placement memorandum (PPM). The main exposure of this first stage is the actual or alleged fraud or misrepresentation and incorrect or incomplete risk disclosure in the PPM or other information provided during the solicitation process.

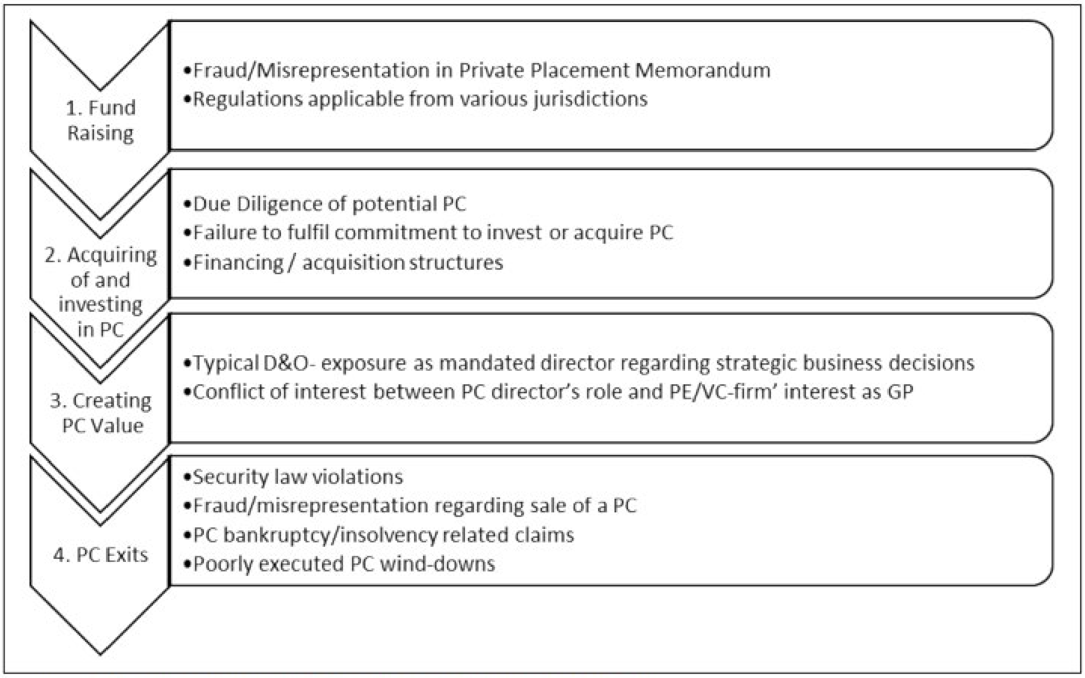


Figure 1: Exposures during the Four Stages of the Investment Activities

Stage 2 - Investing and Acquiring of Portfolio Companies (PC)

Once the investors are on board and the necessary commitments have been received in the first closing, the fund manager enters into the stage of performing due diligence reviews of potential target companies. The selection of a PC as such, the chosen structure, the type of financing of the acquisition and other decisions taken in the context of the acquisition can be grounds for complaints by the investors. Whereby these allegations will be made by investors there is also a risk coming from another side: potential or future portfolio companies can claim compensation from the PE-firm or the fund manager for the failure to fulfil commitments to invest or acquire the portfolio company.

Stage 3 - Creating PC Value

The focus of the investment is to increase the value of the PC. The PE-firm will intend to do so by gaining influence on the business model of the PC sending employees to sit on the different board of directors. One person may hold between four to eight board seats. The PE-mandated directors are often directly engaged in strategic management decisions with the aim to make the PC more profitable and enhance their value. And, as directors, they are personally liable for wrongful management decisions. When the PC does not show the expected development and increase in value the range of potential allegations claiming wrongful management decisions or omissions is wide. The PEmandated director can consequently be facing allegations like any 'regular' board member

An additional risk, specific to the role as PE-mandated director, arises out of their 'double role' which can lead to a potential conflict of interest: Being sent by the PE-firm to act as director to the PC, the employee is requested to act in the interest of the PE-firm (or the GP) whereas in the position as board member of the PC, the director has to act exclusively in the interest of the PC. In fact, allegations of conflicts of interests are widely seen in claims.

Claims filed against board members of a PC can originate from various sources: the original founders of a PC, other members of the management, creditors, shareholders, competitors, suppliers, vendors, governmental/regulatory agencies or company employees. Even the PC itself can be the claimant and in such cases will not indemnify the director for the damages they claim.

Stage 4 - Portfolio Company Exits

There are a number of options available how the PE-firm can exit a PC: sale, IPO or - in case the investment did not develop well – 'close the doors' (write down, liquidation, bankruptcy) – only to name a few. In the course of the divestment various aspects need to be monitored by the management of the PC. A potential breach of obligations can occur in different areas: a violation of applicable securities laws, misrepresentation or fraud in respect of the sale of a PC (potentially in a prospectus), non-fulfilment of contractual obligations of an M&A contract, duties of notification related to a bankruptcy proceeding of the PC, poor execution of the PC wind-down, negligence in respect of general reporting and information duties towards regulatory bodies or investors etc.

with branch-offices and subsidiaries abroad, advising or managing offshore funds that hold SPVs and PCs in a variety of jurisdictions, and their directors have to comply with several legal and regulatory frameworks. Regulatory investigations and criminal prosecutions are often followed by civil law claims for compensation.

In times when the company has financial problems, needs to be liquidated, a receiver is appointed or the company has already gone bankrupt, the management is facing a larger risk of being held personally liable for losses that shareholders, the entity or third parties have suffered. As the members of the management are thus putting their private assets at risk3 , such scenarios can turn into a very threatening situation.Even if the claimant has to prove that a wrong managerial decision or omission is the cause of such loss the manager will most probably defend him or herself immediately and incur substantial legal defence costs.

Claims filed against board members of the PE-firm, of a fund or of a PC can originate from various sources: investors, competitors, suppliers, vendors, the PE-firm, the fund or the PC itself, its employees and management as well as other board members.

Conclusions

The liability risks a PE/VC-firm or their directors can be exposed to are many. As part of an enterprise-wide risk management, the directors of a PE-firm or a fund should evaluate how to mitigate these risks. This can be done by setting up a state of the art IT system, enhancing internal procedures and protection measures, training employees or adding audits. With respect to the residual risk after such mitigation efforts, a decision will have to be made on how much of the risk shall be transferred to external parties by e.g. concluding an insurance.

For a director it is crucial to establish if the portfolio company, which he/she is joining as director, has D&O coverage in place. If in place, it is sensible to get specialist advisors to review and determine the coverage and the limits of liability provided. Alternatively, the director should request the PE-firm to arrange D&O insurance coverage extending to all mandated director positions on the board of multiple PC.

With complex contracts, the devil is in the detail. Expert advice from an independent insurance broker is recommended. It is essential to have the terms of the insurance contract, definition of terms, exclusions, as well as obligations of the parties to the contract carefully reviewed in respect of the specific situation of the PE-firm. In addition to reviewing the policy terms and conditions, the board should take into consideration the insurer's financial strength, underwriting expertise and claims-paying reputation.

Editors Note: This article was abridged slightly for length. The full length article is available here.

Data Snapshot: Asia-Focused Buyout Funds on Path for Record Fundraising

Asia-focused buyout funds are set to mark a record year in 2017, according to new data from Preqin. Fundraising has reached $23bn as of August, and is on course to surpass the record $24bn raised in 2014. However, other sectors of the industry have not kept pace, and buyout deal activity has slumped in recent years.

A number of large funds have entered the market, and the industry has seen two record-setting buyout vehicles close so far this year. Despite this, buyout deal activity in the region has slowed in recent years, falling from $50bn in 2015 to $34bn in 2016.

Fig. 7: Aggregate Value of Buyout and Venture Capital Deals* in Asia, 2010 - 2017 YTD (As at August 2017)

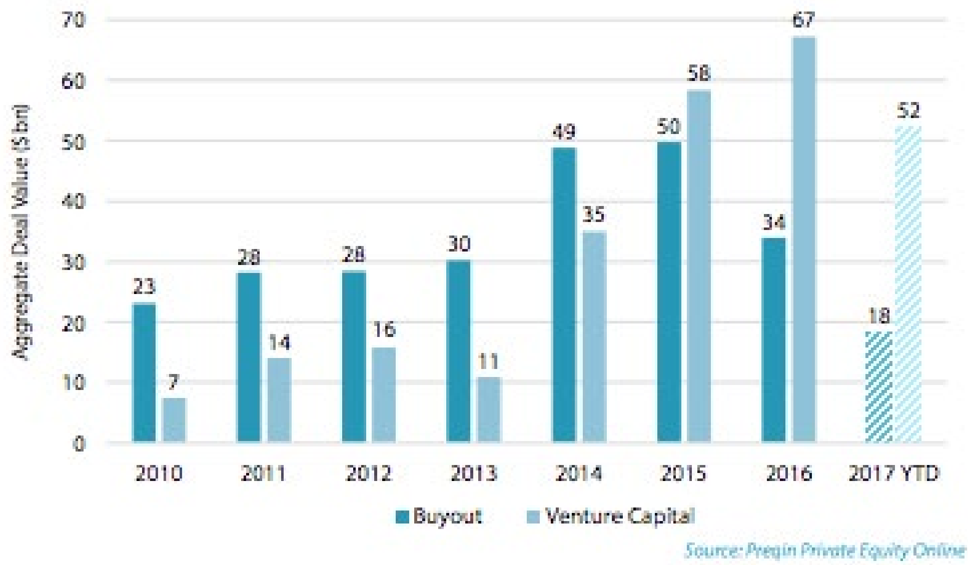
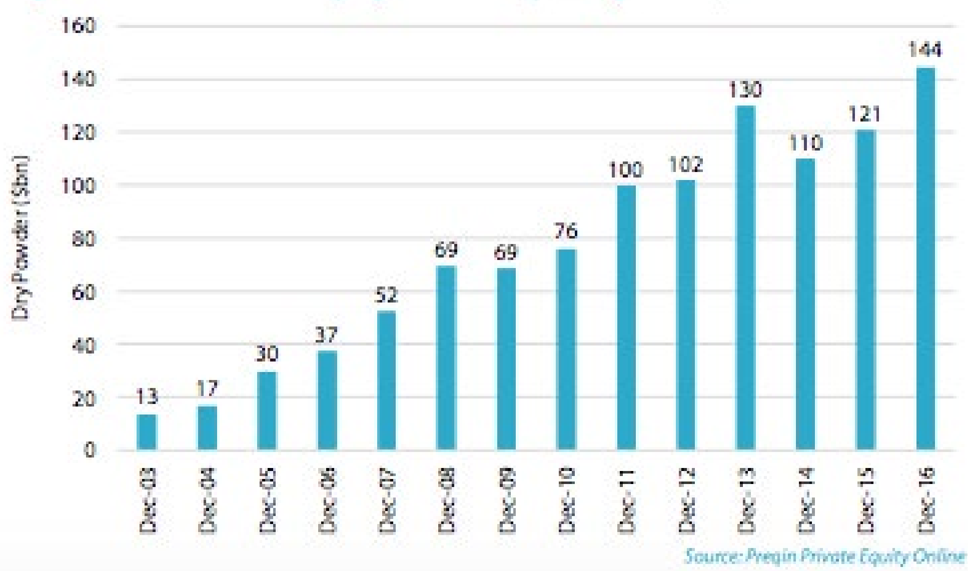


Fig. 8: Asia-Focused Private Equity & Venture Capital Dry Powder, 2003 - 2016



Myth: "Impact Investing – Good People, Bad Deals"

by Tripp Baird, Managing Partner at the Builders Fund

Since 2007 when the term "Impact Investing" was coined, the concept has risen in visibility and – fueled by the coming of age of the Millennial Generation, the retirement of the Baby Boomers, and rising awareness of global social and environmental challenges -- has experienced an increase in interest, capital and innovation aimed at achieving both financial returns and social impact.

In response to the demand for more socially responsible investment opportunities, the market has offered up an alphabet soup of impact products, services and offerings (ESG, CSR, SRI, DBL, TBL, etc.), each meaning something different depending on the user. But lacking a shared lexicon, and often the systemic thinking that is necessary to marry growth and profits with impact, many of these offerings leave investors frustrated.

Further, many investors, particularly in the institutional space, still believe that a focus on impact necessitates the sacrificing of financial returns. U2 front man Bono described this sentiment recently when he quipped to Aaron Ross Sorkin, of the New York Times, that impact investing is simply, "a lot of bad deals done by good people."

While this headline from a pop star may have served its purpose, it ignores the tremendous success and progress achieved by thoughtful private investment fund managers across the impact landscape over the past decades, and does a disservice to the industry. In fact, evidence suggests just the opposite: Cambridge Associates and the Global Impact Investing Network (GIIN) – through their joint Impact Investing Benchmark –tracked the financial performance of over 50 impact funds and found that "in aggregate, impact investment funds launched between 1998 and 2004—those that are largely realized— outperformed funds in a comparative universe of conventional peers." Regardless, the reality is that just as with any other investment approach, there is a spectrum of performance driven by the quality of the manager and the macro-dynamics of the marketplace, among other things, and to label all "impact" as poor performing financially is simply misinformed.

In truth, all investing is actually impact investing, whether the investor chooses to be aware of it or not. Each investment -- or the company in which each investment is made -- has an impact that is achieved through its products and services, through its employees, through its supply chain and through the communities in which it operates. The question is whether or not we choose to be aware of and responsible for those systemic impacts or whether we ignore them in the interest of shareholder profits in a vacuum.

It is this systemic thinking that is the key to moving beyond good intentions to unlock the potential of the capital markets for social good. In The Necessary Revolution, Peter Senge and colleagues succinctly summarize this dynamic from the perspective of systems thinking: "We have gotten into our predicament today because of a way of thinking that focuses on parts and neglects the whole. We have become masterful at focusing on immediate goals–such as short-term profits–and neglecting the larger systems of which quarterly profits are but one small part…. In a world of constrained natural capital, social capital and human capital, optimizing only return on financial capital imprisons business in the shadow of a distant past."

Capitalism has contributed to enormous social progress over the past century. Poverty rates worldwide have declined from 40% in 1981 to 10% in 2013. Life expectancy reached 71.5 years in 2014, an increase of almost 20 years from 1960. Infant mortality has declined 58% since 1970; and child mortality has declined 62% over the same period. Adult literacy has climbed over 85% globally, up from below 20% at the turn of the century. These are huge accomplishments in the face of ever increasing populations. Without the innovation and the flywheel of growth that capitalism and the profit-motive help catalyze, it is hard to imagine we could have achieved them. Yet a system that fundamentally churns the real assets of human and natural capital into symbolic financial assets without regard for the resulting impacts on the entirely connected and co-dependent elements of the system will eventually collapse.

Capitalism must be a part of the solution if we are to fix the significant and intractable social and environmental challenges we face today. For that to occur, we must invest in and build scalable and purpose-driven businesses that improve the world instead of simply extracting wealth over the short term.

There are substantial benefits -- or returns -- both financial and social in this approach. Purpose driven companies enjoy tremendous competitive advantages, from the acquisition and retention of great talent to the productivity and engagement of employees, greater brand equity, increased customer loyalty and lower cost of customer acquisition to name a few. Purpose cultivates passion, commitment and shared values that are increasingly important to today's consumers. And similarly, gathering information on environmental, social and governance risk factors as investors mean fundamentally better diligence and risk mitigation.

In their notable 2011 article, Michael Porter and Mark Kramer coined the term "Shared Value" as the expansion of "the total pool of economic and social value" available to both corporations and surrounding communities. They posited that companies who practice a shared value approach investigate untapped revenue sources within their immediate environment, finding ways to maximize profitability by—not in addition to—improving human lives and promoting environmental welfare.

Building on the foundation of this seminal work, they are now working to realize the potential of a shift in management thinking in support of the idea that Shared Value is not external to profitable business practices but integral to them, through their Shared Value Initiative.

The Initiative includes companies like Cemex, a Mexican cement and building supply company that has pioneered a model to provide low-income families with access to financing and materials for housing improvements, while providing employment for local workers through their sales and distribution channels. As a result, one million low-income individuals have been provided affordable home improvement options and 350,000 more have been able to build their own homes. These efforts have created new jobs for local workers, 95% of whom are women and half of whom had no prior work experience.

Corporate behemoths, like Nike, Coca Cola, Unilever, IBM, Levi Strauss, CVS, P&G, Google, Facebook and DuPont are also getting on board. Each has recently rewritten core policies to account for social / environmental responsibility, invested in partnerships with non-profits, and shifted corporate strategy—not merely out of a concern for health or the environment, but because it's smart business.

A full decade after the creation of the term "impact investing" -- and recognizing the many well-intentioned and often successful investments for impact that occurred in the years preceding it – the field has evolved beyond the point where we can settle for "bad deals done by good people." With all due respect to Bono, if we expand our thinking to embrace the systemic changes that can create shared value across corporate ecosystems, we can not only achieve excellent financial returns, but we can fully optimize the use of financial capital to serve the needs of humanity in the next century; and in doing so, help address the intractable social and environmental challenges facing the world today.

Dealmakers Q&A: MedMen Eye Second Fund

By: Bailey McCann
Private Equity Strategies

Los Angeles, California-based cannabis-focused investment firm MedMen is eying its second fund. The firm is targeting $250 million for investments in cannabis assets.

MedMen's investor base is largely high net worth individuals and family offices, but the firm has also had some institutional interest. MedMen partnered with Chicago-based Wicklow Capital, a venture capital firm, for investments from its first fund which closed on just under $100 million earlier this year. Wicklow Capital is backed by Dan Tierney, the co-founder and former board member of GETCO, a Chicago-based high-frequency trading firm, now known as KCG Holdings following GETCO's acquisition of Knight Capital in 2013. MedMen typically invests between $1-40 million per transaction and made seven investments from its debut fund.

Unlike other cannabis industry investors that are focused on investing in existing consumer distributors, MedMen invests in raw assets. The firm is looking for opportunities to buy licenses or cannabis assets that they can then turn into an enterprise. MedMen operates by using a management holding company model, so they are the owners of each entity in the portfolio, rather than simply investing in several companies.

"We made a strategic decision to be very hands-on with development," MedMen co-Chairman and Partner, Chris Levy tells Private Equity Strategies. Levy oversees the investment strategy for the firm. Prior to joining MedMen, Levy spent more than two decades on Wall Street, holding senior management roles at Morgan Stanley, OppenheimerFunds, and BlackRock.

According to Levy, the development model MedMen uses is more resource intensive, but it allows the firm to be a prime mover in the still nascent industry. "We are working on everything from regulatory, to site selection, to bringing in people with relevant experience," he explains. "Many people look at us as a pot business, but we are largely working with experts from other fields including agriculture, chemistry, consumer marketing, finance. We are creating a new industry."

MedMen has an established presence in states that allow medical marijuana and is expanding its footprint into emerging medical markets including Massachusetts, New York, and Nevada.

In some ways, the firm operates like a large mid-market specialist private equity manager. Because of the focus on a single industry, Levy and the investment team can take advantage of common private equity scaling practices like group purchasing, group marketing, and supply chain optimization. For Levy, that model is key to MedMen's growth prospects because he says, it creates standardization and opportunity in an otherwise inefficient and fragmented market. "We're still early enough into the development of the industry that people are trying a lot of different models," he says. "This isn't available in every state. So if we can come in and build scale, there is opportunity for us there."

Quick Hits

Carlyle Group LP is in talks to sell a stake in TCW Group Inc, a Los Angeles-based investment manager, to bidders including Nippon Life Insurance Co. and Mitsubishi UFJ Financial Group Inc., according to The Wall Street Journal.

Berkshire Partners has acquired Accela, Inc, a Japan-based provider of civic engagement software solutions for state, county and municipal governments.

Alpine Investors has invested in Bill4Time, a Seattle and Pittsburgh-based provider of cloud-based time and billing software. Financial terms weren't disclosed.

Hammond, Kennedy, Whitney & Co. has acquired Protect Plus Air Holdings, a Hickory, N.C.-based manufacturer and distributor of retail air filters.

MidOcean Partners has held a $692 million first close on its fifth flagship private equity fund, according to regulatory filings.

Daimler has acquired Flinc, a Germany-based peer-to-peer-style carpooling platform, according to TechCrunch.

New Mountain Capital a New York-based investment firm, has raised $6.15 billion for its fifth private equity fund, New Mountain Partners V, L.P.

Leerink Transformation Partners, a Boston-based private equity firm, has raised $313 million for its debut fund, Leerink Transformation Fund I LP.

Mark Piasecki, Klaus Maurer and Jean Châtillon have become partners at European private equity firm Silverfleet. Each will focus on different investment areas.

Francisco Partners is targeting $3.75 billion for its next fund, according to Buyouts.

Events

Private Equity Investing in Healthcare Practice Management Companies

October 19, 2017 | New York
Hosted By: Capital Roundtable

Private Equity Investing in Transportation & Logistics Companies

November 2, 2017 | New York

Best Practices for Private Equity Investor Relations Partners

November 16, 2017 | New York, NY
Hosted By: Capital Roundtable

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