

KEYNOTE INTERVIEW

Delivering solutions



*GPs are looking for strategic partners to help them address various challenges – something a GP stakes strategy can help achieve, say **Adel Alderbas**, CIO of Wafra, and **Lauren Rich**, managing director*

Q Has the current market environment had an impact on the GP stakes strategy?

Adel Alderbas: The demand we are seeing from GPs for strategic partners is really significant in this environment.

We have been an investor in GP stakes for over a decade, and we have certainly seen an uptick in demand of late as a result of the more challenging fundraising environment.

Limited partners today are consolidating their relationships and want to go deeper with fewer managers. This has led to more GP stakes transactions because, in order to be the most relevant to LPs, GPs are showing up with a variety of products that they believe will align their strategies with those of their LPs.

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Lauren Rich: We are also observing a greater meeting of the minds on the pricing of these transactions. Since we are generally executing on an unlevered strategy, these transactions are not reliant on the financing markets, and so we continue to see a lot of activity.

The GP stakes strategy is, essentially, a solutions provider. At the moment, there is a real need for solutions, with GPs looking for strategic partners to help them address various challenges such as limited liquidity and stagnating dealflow. In strong fundraising environments, we see GPs looking to increase GP commitments or launch new strategies. So, actually, the GP stakes

strategy is something of an all-weather strategy. We tend to see robust demand across the cycles, but right now we are seeing exceptionally high demand.

AA: We are a lifecycle investor in GPs, investing in established managers as well as launching next-generation managers. We are seeing a lot of demand at both ends of that spectrum right now, both because of the challenges in the fundraising environment and because next-generation funds are seeing a unique investment opportunity that is ripe for them to launch into. They sometimes need additional backing for that.

All of these drivers on the demand side are impacting the supply side in this market. When we first started investing in GP stakes a decade ago, there was only a handful of players.

Today, we see far more investors coming in and focusing on different areas or specific strategies, whether that is private equity, real estate or venture. There are more funds now, and there are more LPs looking to directly invest into GP stakes.

LR: The liquidity environment is obviously a factor in driving some of this activity. There are many different motivations for why a GP looks to bring on a strategic partner: lots of GPs are looking at GP commitments to subsequent funds and, perhaps because they have experienced a delay in exits, they need additional support.

We also continue to see succession issues as a motivator for these transactions, where a GP stakes investor can facilitate a smooth founder transition from the business or elevate the next level of partners and institutionalise knowhow to make sure there is a business for the long term.

Q How has the GP stakes strategy evolved in the past few years?

AA: When we executed our first GP stakes investment back in 2012, there wasn't really a market for GP stakes. We were acting as a solutions provider – something that Wafra is known for.

The GP in this investment had been a longstanding partner to our parent company; they came to us with succession issues and the need for someone to act as a capital solutions provider. Once we had done that deal, we realised other GPs could have the same need. The drivers of that need kept on growing.

When we started educating the market on why they might consider selling a GP stake, the initial response was a fair bit of scepticism. Today, the market has evolved and everyone appreciates the value of a solutions provider.

We were initially apprehensive about LP appetite – the strategy was new to institutional LPs and, inevitably, some expressed concerns. However, GP stakes has evolved into more of

Q What do you expect to be the main drivers of growth for GP stakes in the coming years?

Adel Alderbas: The GP stakes market is still in its early days. As investors increasingly allocate to private markets, GPs will continue to grow and scale; in turn, as GPs scale their businesses, they will seek GP stakes partners to help accelerate and navigate this growth.

Several factors suggest the volume of GP stakes transactions will persist in the near term, including the shifting PE fundraising market, changing interest rates, the upcoming US election and potential changes in tax policy.

Lauren Rich: We talk a lot about a fundraising slowdown. However, private markets continue to grow at a steady pace, with demand for alternative assets consistently strong. There is still significant growth to come, and we see GP stakes continuing to grow as a result.

Additionally, we expect GP stakes investors to benefit from further consolidation within the asset management industry, as large market participants turn to acquisitions to supplement their investment capabilities.

a marketplace in the years since. Back then, there were no investment banks operating and we sourced all of our own deals directly; today, there are multiple intermediaries managing a lot of these processes.

Q What attracts institutional investors to GP stakes as a strategy?

LR: What is really interesting about GP stakes is you are providing investors with diversified exposure to alternative asset managers. When you are investing in a GP stake of a single manager, you are getting exposure to their entire fund portfolio and accessing a contracted cashflow stream and a solid yield profile.

Asset management businesses are generally very attractive from both a margins and cashflow perspective. Essentially, a GP stakes strategy enables LPs to be invested in private markets and participate in the enterprise value that institutional investors are themselves helping to create.

AA: The underlying theme that we have been observing over the last few years is – especially in the tough fundraising environment – LPs are getting

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LAUREN RICH



more sophisticated. They are demanding more alignment, and they want access to the best-in-class ideas and close collaboration opportunities. Achieving that alignment with a GP's investment strategy becomes a conduit for further collaboration.

Our approach is not just giving LPs access to alpha on GP stakes, but offering alpha-plus and helping them build those really close relationships. We have 25 asset owners in our network and 28 asset managers: that ecosystem allows for closer collaboration opportunities, which then attracts institutional investors to engage. As the market evolves and more LPs become aware of the opportunity, we expect this to account for a greater portion of portfolio allocations in future.

Q What is unique about Wafra's approach to GP stakes?

LR: We are providing a solution to both our GP partners and our asset owners, and we are finding a way to marry the two parties together. We look at this task from the perspective of, "How can we provide a creative capital solution with appropriate downside protections that both delivers capital and helps accelerate enterprise value creation?"

We are able to couple our investments with a broad toolkit in terms of tactical solutions like co-investment and warehousing, which enables us to think creatively about structured solutions as well as common equity for an aggregated solution. Institutional investors are seeking alignment and collaboration, so we are providing that ecosystem to drive healthy growth in that context.

AA: We have been investors in this space for over a decade and we are known as a lifecycle investor. We have made 28 investments in the space, across both next-generation and established managers.

From a value creation perspective, we have a differentiated approach that is aligned with 25 asset owner partners across 10 countries and three continents. That creates a multiplier effect that resonates with the marketplace. That consortium of owners is a key differentiator in that we are providing more than just capital to GPs: we can deliver co-investment capital, GP capital or investment capital, as required. We also continue to refine our value proposition by providing advice on product design, executive strategy, tactical investing and more.

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ADEL ALDERBAS

LR: A tangible example of that has been the development of ESG and how those strategies get implemented across asset managers. We have a team working with our asset managers to make sure they are meeting institutional investors' expectations and sharing best practice in that area. ■