



Meeting Recap: Partners Group Private Equity Fund (October 2021)



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Manager

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On October 28, 2021, members of CAPTRUST's Investment Group met with Partners Group to receive an update on the Partners Group Private Equity Fund (PGPE). In the meeting from Partners Group was Portfolio Specialist Sam Patsy. Representing CAPTRUST were Jared D'Orazio and Charlie MacBain.

Key Takeaways

- The Partners Group Private Equity (PGPE) fund continues to experience strong asset growth and will hit \$10 billion in assets under management this year. This is considerable growth for the strategy as it had only \$2 billion in assets at the end of 2017. Given the global scale of Partners Group and PGPE's access to all the deals Partners Group sources, the team feels confident it can continue to effectively deploy capital and keep the fund open. We maintain our conviction in Partners Group but are closely monitoring the fund's capacity.
- PGPE is on pace for its best year since inception, having returned 19% for the class I share class year-to-date through September. Performance has been driven by the fund's direct investments with several positive developments across the portfolio. PGPE has also benefited from a favorable market environment for the sectors it focuses on, which include healthcare, technology, and consumer discretionary.
- Secondary investments are becoming an increased focus for the portfolio with the growth of GP-led and single-asset secondary deals. These are typically situations where a GP has one or a few high-quality assets remaining in its portfolio but requires more time to realize full value. To capitalize on these opportunities, Partners Group has integrated its secondary and direct deal teams into one team.

Business Update

- The PGPE fund had \$9.8 billion in assets under management (AUM) as of the end of September 2021 and is on pace to reach \$10 billion in total assets by the end of the year.
- The fund is currently receiving about \$100 million in inflows per month.
- At its current AUM level, PGPE is the largest single fund managed by the firm. Partners Group manages \$118.9 billion globally.
- Evergreen funds, such as PGPE, represent about 38% of Partners Group's total AUM and the firm is a strong supporter of evergreen structures.

- In addition to PGPE, Partners Group has a CIT version and a second registered version meant for various types of institutional clients. The firm is also exploring custom evergreen separate account offerings.
- Outside of the evergreen solutions, Partners Group also offers traditional private equity funds. The firm recently closed its fourth middle market buyout fund and expects to return to market in 2022/2023 for that strategy. The firm is currently in market with an infrastructure fund it expects to close in early 2022. Lastly, the firm also has a dedicated secondaries fund currently in the market.
- PGPE's investor base continues to widen. Investors through Merrill's broker channel, the first wirehouse PGPE launched with, make up 46% of the fund and is coming down. RIA assets make up about 20% of the fund. Institutional investors are 8%. The fund is also available on Morgan Stanley's platform and that channel continues to grow.

AUM Growth and Capacity

- The most common question Partners Group gets about PGPE is about capacity. At nearly \$10 billion in AUM, the fund has grown considerably in recent years. For example, the fund had \$2 billion in assets in 2017.
- As the fund grows it must commit to a larger number of deals or make larger investments so that it can put all its capital to work to earn returns.
- This leads to natural questions about deal flow. Does PGPE have access to enough potential investments to deploy all its capital? Will the risk/return profile of the deals PGPE invests in change as the number or size of investments changes?
- Partners Group is confident that it can continue to source the same quality of investments while keeping pace with the growth of PGPE.
- In 2017, the firm restructured PGPE so that it could participate in direct investments the firm was executing across its other pools of capital. Since that restructuring, PGPE has invested in all the large direct investments Partners Group has done.
- With \$118.9 billion in total assets under management and more than 500 investment professionals across 20 offices throughout the world, Partners Group is one of the largest asset managers in the private markets universe.

- This provides significant breadth and access to investments for all the firm's pools of capital.
- The fact that 2021 has been PGPE's best performing year since inception while its AUM has continued to grow gives the team greater confidence in its ability to continue to execute its investment process and strategy.
- We acknowledge Partners Group's success in managing large pools of capital and maintain our conviction PGPE's investment management team and the firm broadly. However, we are closely monitoring the fund for any meaningful deviations to its process or strategy caused by its AUM level.

Portfolio Update

- At the end of September 2021, the portfolio allocations by deal type were 64% direct, 19% primary, 15% secondary, and 2% listed securities.

Increased Secondary Activity

- PGPE's activity in the secondary space has increased as that market has evolved with the growth of GP-led and single-asset secondary investment opportunities.
- As these types of transactions tend to be more complex Partners Group believes its depth of capabilities give it the ability to execute these investments and create value in unique ways.
- The team underwrites these investments the same way it does direct investments and recently integrated its secondary and direct investment teams to strengthen its ability to capitalize on the current market opportunity.
- Given Partners Group's constructive outlook for the secondary market, we would expect PGPE's allocation to secondaries to increase.

Primary Fund Investment Style

- Partners Group is also adjusting the way it constructs PGPE's portfolio of primary fund investments.
- The team plans to increase the number of primaries it invests in while reducing the average investment size. The allocation to primaries as a whole shouldn't change too much.

- Partners Group is adopting this approach so that it can invest with more general partners with the end goal of increasing its access to co-investment and secondary deal flow.

Sector Focus

- Partners Group main sectors of focus are healthcare, information technology, and business and financial services.
- The firm is targeting these sectors across geographies and deal types as it believes there are many industries and companies within these sectors that are less correlated to GDP growth, which is an attractive attribute.
- The team also believes there is an attractive opportunity set within infrastructure and has increased its activity in the space. They expect PGPE's exposure to infrastructure investments could increase to 10-14% of the fund.
- The team is focused on infrastructure equity deals across both green and traditional projects. It underwrites these like direct investments with a target net multiple of 2x and net IRR of 20%.

Recent Investments

- Clarivate – a public, web analytics company
 - PGPE invested when it was a private company but continues to hold these shares as the company is up 76% since its IPO in May 2019.
- Parmaco – a modular building company in the Nordic region focused on sustainable construction.
- Unity Digital – a cell phone tower construction company based in the Philippines.
 - The Philippines is a fast-growing country, but infrastructure development has been slow.
 - Partners Group's Manila office led the deal and expects it to be an attractive growth opportunity.
- Apex Logistics – a European logistics firm.
 - It is a new investment this year, but has already seen positive returns and the value has been marked up 1.5x the entry value.