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CONNECTIONS

IN THE MIDDLE MARKET

SPRING 2016

SOVEREIGN WEALTH FUNDS LIKE WHAT THEY SEE IN U.S. MIDDLE MARKET

ALSO INSIDE!

Six tips when raising money from SWFs

Medical outsourcing draws fresh wave of sponsors

Valuations remain high as the year begins

Exclusive surveys on deal pricing and leverage multiples

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CONNECTIONS

IN THE MIDDLE MARKET

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A LETTER TO OUR READERS

It's easy to get caught up in the latest woe-is-me news headlines, whether about the slowing economy in China, flagging public equity valuations, or the chilled credit markets.

But behind the scenes mid-market buyout firms are quietly going about their business of refilling their war chests, deploying capital, and borrowing money. Our latest edition of *Connections in the Middle Market*, the second off-spring of a partnership between publisher **Buyouts Insider** and global law firm **Duane Morris**, is dedicated to helping mid-market sponsors better navigate those basic tasks.

You could be forgiven for thinking that landing a sovereign wealth fund as a limited partner was out of reach or not practical. Aren't these behemoths too large to make a commitment to a fund of just a few hundred million dollars? One of two feature stories in this issue debunks the myth that SWFs don't back small funds. They may be big, but they're finding a way into the U.S. middle market, such as through custom managed-account assignments.

The list of mid-market firms that have secured backing from SWFs is large and growing. It includes the likes of **Frazier Healthcare Partners**, **H.I.G. Capital**, **TA Associates** and **TorQuest Partners**. No fewer than 25 SWFs have a known appetite for private equity—each briefly profiled on pp 20-23. Together they manage more than $6 trillion.

But raising money is only half the battle for mid-market sponsors, of course. And that fact inspired our second feature story, which describes one of the hottest trends in one of the hottest deal markets, healthcare.

An estimated $3 trillion is spent in the United States on healthcare each year. When you consider that seven in 10 U.S. healthcare companies outsource a portion of their work, you can appreciate the size of the opportunity in such fields as billing and temporary staffing.

Our feature points to the latest and most fascinating opportunities emerging in healthcare outsourcing. You'll learn about a company that provides patients with video-based interpretation services (**InDemand Interpreting**, backed by **Health Enterprise Partners**); one that supplies nurses from the Philippines to chronically understaffed hospitals in the United States (**HCCA**, backed by **MTS Health Investors**); and another that supplies hospitals with surgical equipment and personnel (**Surgical Solutions**, backed by **Sterling Partners**). A handy table shows you where some of the top healthcare-focused firms stand in their latest fundraises (p. 6).

Meantime, this issue of *Connections in the Middle Market* marks the second time that we're tracking pricing and leverage multiples via proprietary surveys of deal professionals.

The bottom line? The frothy times are over in the credit markets, but relief may be in sight when it comes to deal pricing.

A survey of some 60 deal professionals and investors conducted by **Buyouts Insider** in December and early January found more than four in 10 (44 percent) predicting the debt markets would be creditor-friendly over the next 12 months (see chart, p. 17). Just one in four (24 percent) predicted that they would be borrower-friendly and one in three (32 percent) predicted they would be balanced.

By comparison, three-quarters (76 percent) of respondents described the credit markets over the past 12 months as "borrower-friendly." Just 5 percent described them as "creditor-friendly," while the rest (19 percent) described them as "balanced."

The good news for sponsors: Given their expected turnabout in the credit markets, not many survey respondents believed that deal prices would be heading higher.

Nearly a third of respondents (30 percent) predicted that prices would fall in the North American middle market over the next 18 months. Another 50 percent of respondents saw level prices ahead. Just one in five (20 percent) predicted prices would be heading higher.

And just where are prices? A separate, informal survey of six investment banks conducted by Buyouts Insider at year-end found a median enterprise value-to-EBITDA multiple of 9.8x for North American companies generating more than $25 million in EBITDA, and 8.5x for companies generating less than that (see chart, p 16). Survey participants included Carl Marks Advisors, Duff & Phelps, Harris Williams, Lincoln International, Raymond James and Stifel Investment Banking.

Make sure to send any comments or suggestions on this edition of *Connections in the Middle Market* to dtoll@buyoutsinsider.com or rpjaffe@duanemorris.com.

ACTION ITEM: Investment bank Robert W. Baird & Co puts together an excellent monthly report on M&A pricing. www.rwbaird.com

David Toll
Executive Editor
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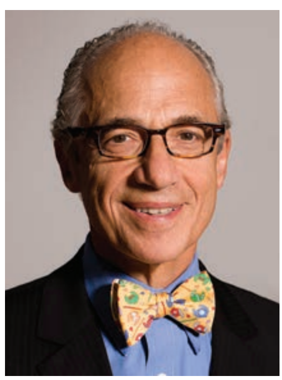

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MEDICAL OUTSOURCING DRAWS FRESH WAVE OF SPONSORS

BY TOM STEIN AND DAVID TOLL

Companies that provide outsourced services to hospitals, clinics, and physician networks represent one of the hottest segments in healthcare—and a new crop of sponsors is trying to cash in.

All told about seven in 10 U.S. healthcare companies outsource a portion of their work, according to recent estimates by **IndustryArc**, a market research firm. Just the U.S. healthcare business process outsourcing market, which encompasses claims processing, medical billing, and human resources, is projected to be worth $141.7 billion by 2018, according to market research firm **MarketsandMarkets**.

A number of factors are driving the medical outsourcing trend, including the rapidly rising cost of healthcare, a shortage of well-trained staff in many areas, and an upwelling of new compliance requirements. Traditionally, hospitals and other healthcare providers limited the services they were willing to outsource to back-office functions like claims processing and medical billing.

No longer. Under pressure to provide better care at lower cost, hospitals are delving deeper into outsourced services in areas such as surgical solutions, patient translation services, and even off-shore nursing services. Savvy private equity firms have spotted this trend and are ramping up deal making in medical outsourcing companies, including healthcare MSOs (management services organizations), which are typically jointly owned by the physicians themselves.

> “The old mode of doing business where a hospital functions as a complete one-stop shop for everything from surgery to custodial services to food is no longer viable.”
> —Ezra Mehlman, VP, Health Enterprise Partners

Connections in the Middle Market has identified at least 11 growth equity and buyout transactions in the medical outsourcing market since late 2014, sponsored by such firms as **Clearview Capital**, **MTS Health Investors** and **Sterling Partners** (see p. 11 table).

“The old mode of doing business where a hospital functions as a complete one-stop shop for everything from surgery to custodial services to food is no longer viable,” said **Ezra Mehlman**, vice president at private equity shop **Health Enterprise Partners**. Mehlman recently led his firm’s investment in **InDemand Interpreting**, a provider of video-based interpretation services. “When you have an industry that is in transformation, and you have hospitals operating on single-digit operating margins, MSOs will inevitably emerge to help them survive in this environment.”

HOSPITALS COMBINE FORCES

Further fuelling the outsourcing trend is the frenzy of M&A activity among acute care hospitals. As hospital systems combine, they often take the opportunity to evaluate what services need to stay in-house and which can be outsourced at a lower cost.

InDemand Interpreting has benefited from the trend. Hospitals in the United States are now mandated to provide translation services for the growing number of patients who don’t speak English or at least not well. Most hospitals do so through hiring their own in-person interpreters, or offering over-the-phone interpreting.

InDemand provides this service via video, which Mehlman says is more patient-friendly than over-the-phone interpreting. It is also promoted as lower cost and more convenient than hiring an in-person interpreter. InDemand interpreters are at the ready 24/7 in a matter of seconds,

NOTABLE HEALTHCARE-RELATED FUNDRAISINGS, 2010-2016			
FUND NAME	FIRM NAME	EST. AMOUNT RAISED TO DATE (MIL)	TARGET (MIL)
Ampersand 2014 Limited Partnership	Ampersand Capital	$176.20	$300.00
BelHealth Investment Fund II, L.P.	BelHealth Investment Partners LLC	$350.00	$300.00
Chicago Growth Partners III LP	Chicago Growth Partners	$250.00	$500.00
Chigago Pacific Founders Fund LP	Chicago Pacific Founders	$183.98	$350.00
CRG Partners III L.P.	Capital Royalty Group	$148.00	
DW Healthcare Partners IV, L.P.	DW Healthcare Partners	$159.75	-
Essex Woodlands Fund IX, L.P.	Essex Woodlands Health Ventures	$360.50	$750.00
Frazier Healthcare Growth Buyout Fund VIII, L.P.	Frazier Management LLC	$435.00	$500.00
HealthEdge Investment Fund II, L.P.	HealthEdge Investment Partners LLC	$47.33	$150.00
Leavitt Equity Partners I LP	Leavitt Equity Partners	$82.20	$100.00
Linden Capital Partners III, L.P.	Linden LLC	$750.00	$750.00
MTS Health Investors III, L.P.	MTS Health Partners LP	$188.03	$300.00
New Health Capital Partners Fund I, L.P.	New Health Capital Partners LLC	$150.00	-
NovaQuest Healthcare Investment Fund LP	NovaQuest Capital Management LLC	$177.00	$500.00
NovaQuest Pharma Opportunities Fund IV LP	NovaQuest Capital Management LLC	$700.00	$850.00
RoundTable Healthcare Partners Fund IV, L.P.	Roundtable Healthcare Partners LP	$650.00	-
Varsity Healthcare Partners Fund	Varsity Healthcare Partners	$240.00	-
Visium Healthcare Partners LP	Visium Healthcare Partners	$275.00	$500.00
Vistria Fund, L.P.	Vistria Group, L.P., The	$330.59	$500.00
Water Street Healthcare Partners III, L.P.	Water Street Healthcare Partners LLC	$750.00	$650.00

Source: Thomson Reuters, Buyouts Insider, as of Feb. 23, 2016

providing translation services in more than 13 languages.

"The benefit to providing high-quality interpretation services certainly extends beyond the cost savings opportunity," said Mehlman. "The benefits are in increased patient satisfaction as well as improved patient outcomes and patient throughput. If you think about the impact of not readily having an interpreter for a patient who needs one right away, that can cause a backlog of patients in the ER and impact the timeliness of care."

Health Enterprise Partners didn't reveal the financial terms of the deal, but it typically invests between $5 million and $15 million per portfolio company. Since their introduction in 2007 InDemand Interpreting's services have been installed in over 400 hospitals and clinics across the country.

"We believe that the consolidation of the provider market, a renewed focus on quality and patient-centric care, coupled with the shifting demographics of the U.S., have created a perfect storm for InDemand," said Mehlman. "We look forward to continuing to expand our customer base and solidifying our relationship with trusted partners."

As for challenges, Mehlman said that providing high-quality outsourced services requires superb operational talent and a lot of attention to detail. He added that it is still tough for many hospital systems to wrap their heads around outsourced services, especially non-traditional services.

"Selling the hospital on the value proposition of an outsourced service that it is evaluating for the first time can be difficult," he said. "Whenever you are selling something that used to be in-sourced, there is an organizational change component that's involved, which can be hard to overcome. What's more, selling to a hospital is different from selling to, say, a large corporation because the sales cycles are much longer in the medical world."

GROWING RELEVANCE

For **Oliver Moses**, a senior managing director at private equity shop **MTS Health Investors**, the attraction of medical outsourcing is clear. Because of consolidation in the market and the need to reduce overhead, outsourcing will only grow in relevance.

"Efficiencies in the marketplace aren't necessarily being born inside the large healthcare organizations," Moses said. "More frequently, innovative models of service are being born in smaller companies that are then bringing those services on an outsourced basis to the large payers and large provider groups. At MTS, we look for those companies with innovative models."

Healthcare groups, he added, are increasingly willing to lean on outsiders with novel approaches that can help them improve their core competencies and become more efficient—especially if they can do it at a lower cost. "The large provider systems and payers have over time developed cultures that are more embracing of the idea that everything doesn't have to be built and managed in-

"The larger provider systems and payers have over time developed cultures that are more embracing of the idea that everything doesn't have to be built and managed in-house."

—Oliver Moses, senior managing director, MTS Health Investors

How important are leverage, size and growth to navigating the health care market?

Below are excerpts on this question from panelists speaking at an ACG New York-hosted healthcare conference at the Metropolitan Club in New York City on February 25, 2016.

RUSTY HOLMAN, CHIEF MEDICAL OFFICER, LIFEPOINT HEALTH: We feel that consolidation is going to be an ongoing theme, and leverage, size and growth are what independent systems and hospitals that we acquire or partner with are looking for. They may not be in financial distress as they were several years ago. But long-term they know that they're not going to be successful without a partner that can achieve scale. Some of the hospitals we acquire may have a higher degree of evolution in terms of a given model or a given asset, whether it's a business office, whether it's a clinically-integrated network, whether it's IT infrastructure and data analytics that can then be expanded and leveraged throughout several other regions. So with growth comes unique assets that can then be leveraged into a variety of different settings.

JEFF LEBENGER, CEO, SUMMIT MEDICAL GROUP: Scale is very important to us. We've almost tripled in size in the last two or three years. We grew from 200 to 600 physicians. When you scale and bring in new physician groups you're introducing processes that you have to be certain are correct and accurate. It's very costly to scale. Under one of the shared savings contracts that we have, we need to introduce new processes when we grow into a different region, whether that's setting up urgent care or care management. When the new doctors aren't used to your processes, you will lose at first. It's a huge cost when they don't understand your processes. But eventually, if you can export your way of practice to a region, you will reap the benefit.

JOSEPH BERARDO, CEO, MAGNACARE: We're at about 1,000 physicians, up from four about two years ago as we bring on a lot of small practices. Our is a well-baked platform that generally allows physicians to stay independent and be part of something bigger and still be compensated on a production basis versus having things dictated down from an owner, as they might have happen in a hospital. What's interesting about scale is that we're trying to get to a place where we can manage populations and change the reimbursement. So we have to get to scale to be able to do that. But unfortunately we've got legislators that complain that in doing so we're narrowing the network and that's not good for the consumer. So we're going to go through this uncomfortable period where scale is important but scale will be different in almost every micro-network and could literally be different county by county.

GUY SANSONE, CHAIRMAN-HEALTH CARE GROUP, ALVAREZ & MARSAL: It's clear that whether you're a national player or in a regional physician practice or semi-regional health plan, healthcare is still local. The goal is to understand the local population.

RUSTY HOLMAN: Across all of our communities only about one-third of our physicians are employed by us. Two-thirds are independent physicians. We're agnostic to the employment model. We're really seeking the best partners in terms of willingness to drive toward common quality goals and those that are embracing that as both a platform for improved utilization and improved outcomes. When new reimbursement models emerge, we'll be prepared.

Jeff LeBenger, CEO, Summit Medical Group, a physician-owned medical group;

Rusty Holman, chief medical officer, LifePoint Health, provider of healthcare services through 72 hospitals in 22 states, mainly in rural areas and small towns;

Joseph Berardo, CEO, Magnacare, provider of healthcare plans in New York and New Jersey;

Bill Abrams, president of distributed products division of Medline Industries, a family-owned supplier of hospital supplies and pharmaceutical products;

Not pictured: Moderator Guy Sansone, chairman of healthcare group, consulting firm Alvarez & Marsal, and CEO of the Visiting Nurse Service of New York

BILL ABRAMS, PRESIDENT-DISTRIBUTION PRODUCTS, MEDLINE INDUSTRIES: There's no question that systems are getting larger. You can have a debate today about whether there's going to be 1,000 systems that will ultimately control healthcare or 150. But as these systems aggregate we're seeing two impacts. One is that healthcare providers are asking us for way more. They're asking for more services, for products that do more for them, that create better outcomes. They're also doing way more data mining than they've ever done before. In many ways it doesn't take away from the judgment of the individual physician, but it gives them way more information. They can look at how many hips were replaced in a particular system, at what were the outcomes. They are then looking into the care protocols that produced those outcomes and trying to figure out what was changed and if there's any correlation. That's something you really need scale to do, in order to have the patient population to study, and you need scale to have the data analytics work.

RUSTY HOLMAN: I just came from a national cardiovascular physician council that we convened from all of our communities nationally. We came together to talk about pharmaceuticals, about devices, about core practices, about a variety of functions. There was a lot of focus on preference items and the huge variations that exist today in terms of pharmaceutical usage that has no basis in the evidence. Same with the use of devices, stents and a variety of other products. We get groups of specialists in a room and put the issues on the table and encourage decisions based on efficacy, safety and then cost. If the first two are equal, then we look at the cost equation. The light bulbs go off like crazy because physicians have traditionally been insulated from the cost equation. Engaging physicians in forums like that has been a game changer for us and for others in terms of managing those costs.

Edited for clarity

house," said Moses. "And as they are forced to become more efficient and reduce waste, they no longer feel they need to do everything themselves."

MTS Health Investors's most recent investment involves **HCCA**, a company that provides U.S. hospitals with nurses from the Philippines and offers a range of clinical services on an outsourced basis. The United States is experiencing a chronic shortage of nurses, while the Philippines enjoys a surplus. HCCA helps these nurses get U.S. accreditation and them brings them over to work at hospitals here. It starts as a staffing relationship, but many hospitals end up hiring those nurses.

> "The large healthcare institutions have to become efficient to survive..."
>
> —Oliver Moses, senior managing director, MTS Health Investors

HCCA also has a team of nurses stationed in the Philippines who assist clients with clinical tasks, such as reviewing medical charts or identifying potential gaps in care. The benefit, said Moses, is that costs are significantly reduced due to faster turnaround times and increased quality of service. Improved patient care results from HCCA's recruiting top nurses and health care professionals from around the world.

MTS Health Investors specializes in middle-market buyouts, investing anywhere from $15 million to $75 million per transaction, and HCCA fit that range, said Moses. The 43-year-old company employs over 1,500 people in Nashville and the Philippines.

Looking ahead, MTS Health Investors plans to support the company's growth through new customer introductions and the evaluation of potential acquisitions. The firm also intends to work with management to evaluate new service offerings and new geographies in which to expand.

"The large healthcare institutions have to become efficient to survive, and they have to look to outsourcing as part of that efficiency," said Moses. "Outsourcers are proving that they have more expertise in controlling medical costs and delivering administrative processes more cheaply. As a result, there is more opportunity for PE firms like us to find these assets and help them scale."

'CONCIERGE' MEDICINE

It is not just large hospital systems that are feeling the heat. Doctor practices are also under pressure.

That's why private equity shop **Shore Capital**

LARGEST U.S.-SPONSOR-BACKED HEALTHCARE DEALS, 2010-2016

RANK	DATE EFFECTIVE	TARGET NAME	DEAL VALUE ($MIL)	INDUSTRY	SPONSOR
1	06/30/2014	Ortho-Clinical Diagnostics Inc	4,000.00	Healthcare Equipment & Supplies	The Carlyle Group LP
2	10/01/2010	NBTY Inc	3,779.43	Pharmaceuticals	The Carlyle Group LP
3	12/05/2011	Pharmaceutical Product Development Inc	3,386.97	Biotechnology	Pharm Product Dvlp Inc SPV
4	08/26/2010	MultiPlan Inc	3,100.00	Healthcare Providers & Services (HMOs)	MultiPlan Inc SPV
5	05/25/2011	Emergency Medical Services Corp	2,923.20	Healthcare Providers & Services (HMOs)	Clayton Dubilier & Rice LLC
6	08/01/2011	Capsugel	2,375.00	Pharmaceuticals	KKR & Co LP
7	09/27/2010	Healthscope Ltd	2,348.08	Hospitals	The Carlyle Group LP
8	09/28/2012	Par Pharmaceutical Cos Inc	1,961.54	Pharmaceuticals	TPG Capital LP
9	03/31/2014	Panasonic Healthcare Co Ltd	1,679.54	Healthcare Equipment & Supplies	KKR & Co LP

Source: Thomson Reuters

LARGEST U.S.-SPONSOR-BACKED HEALTHCARE EXITS, 2010-2016

RANK	DATE EFFECTIVE	SELLER	COMPANY	INDUSTRY	VALUE ($MIL)	ACQUIRER
1	08/06/2013	Warburg Pincus LLC	Bausch & Lomb Inc	Measuring, Medical, Photo Equipment; Clocks	11,647.50	Valeant Pharmaceuticals International Inc
2	04/08/2011	The Carlyle Group LP	HCR ManorCare Inc-Real Estate Assets	Health Services	6,079.65	HCP Inc
3	08/26/2010	The Carlyle Group LP	MultiPlan Inc	Insurance	3,100.00	MultiPlan Inc SPV
4	02/03/2014	TPG Capital LP	Aptalis Pharma Inc	Drugs	2,900.00	Forest Laboratories Inc
5	06/20/2011	Warburg Pincus LLC	American Medical Systems Holdings Inc	Measuring, Medical, Photo Equipment; Clocks	2,519.57	NIKA Merger Sub Inc
6	07/16/2014	Hellman & Friedman LLC	Sheridan Healthcare Inc	Health Services	2,343.96	AmSurg Corp
7	04/16/2015	Madison Dearborn Partners LLC	Ikaria Inc	Drugs	2,300.00	Mallinckrodt PLC
8	02/16/2016	Advent International Corp	Priory Group Ltd	Health Services	2,213.24	Acadia Healthcare Co Inc

Source: Thomson Reuters

recently invested in **Specialdocs**, a provider of consulting services to U.S. physicians transitioning from traditional medical practices to independent, personalized medicine models, also known as "concierge" medicine.

Doctors have to deal with an increasingly complicated reimbursement environment, which leads to rising overhead costs. They are also under strain from the prevalent fee-for-service model that places more emphasis on seeing as many patients as possible than on the quality of care. In fact, the average primary care visit in the United States lasts just seven minutes.

> "Most doctors would tell you a lot can slip through the cracks because they are under such a huge time constraint when they are meeting with patients."
> —Mike Cooper, partner, Shore Capital

"Most doctors would tell you a lot can slip through the cracks because they are under such a huge time constraint when they are meeting with patients," said **Mike Cooper**, a partner at Shore Capital. "By contrast, in the concierge model, a typical doctor has 300 total patients, not 3,000. That means they can spend quality time with each of their patients and ultimately provide better care."

But making that transition to a concierge practice can be nerve-wracking. So doctors are turning to specialists like Specialdocs. "Making that switch is a life-changing event for these doctors," said Cooper. "It is a seminal moment in their careers. It's like having a wedding and worrying that no one is going to show up. Most doctors don't have the expertise, time or energy to go through that process on their own."

Specialdocs handles marketing, communicating with potential patients and explaining the benefits of concierge medicine. As part of that effort the company operates a patient information hotline and website staffed by marketing experts.

Once the new concierge practice is established, Specialdocs stays on to perform services like billing and collection of annual retainer fees. It also continues to handle marketing, such as sending out holiday cards and flu shot reminders to patients, publishing quarterly newsletters, and conducting patient satisfaction surveys. It holds networking events for concierge physicians to meet and discuss what's working for them.

Shore Capital typically invests in companies with $5 million to $50 million in revenue, and the Specialdocs deal was in that range. Part of the money will go to help Specialdocs

NOTABLE SPONSOR-BACKED MSOS AND OTHER OUTSOURCED SERVICE PROVIDERS

COMPANY	LOCATION	DESCRIPTION	DEAL TERMS/DATE	INVESTORS
Advanced Medical Personnel Services	Port Orange, FL	Provider of staffing solutions for the healthcare and education industries.	Acquisition. Deal terms undisclosed. June 2015.	Clearview Capital
Affordable Care Inc	Raleigh, NC	A denture-services and implant-services provider that supports a network of more than 200 affiliated practices in 39 states.	Majority acquisition announced in Oct. 2015. Financial terms weren't announced but Reuters valued the deal at more than $800 million.	Berkshire Partners LLC
Dental Services Group	Minneapolis, MN	Operates a network of over 40 dental laboratories in the United States, with offshore partnerships in Asia that offer customers a variety of options in fixed, removable, implant, orthodontics and sleep dentistry products and services.	Majority investment. Deal terms not disclosed. March 2015.	Cressey & Co
Examination Management Services Inc	Scottsdale, AZ	An outsourced service provider of medical information, risk adjustment and comprehensive investigative services to insurance companies, health insurers, and employers.	Acquisition. November 2015.	Beecken Petty O'Keefe & Company
HCCA Health Connections Inc and HCCA International Inc	Nashville, TN	Provides patient-centered clinical process outsourcing and nurse recruitment solutions to lower costs and improve efficiency for healthcare payors and providers.	Acquisition. Deal terms undisclosed. January 2016.	MTS Health Investors
Healthcare Staffing Services	Denver, CO	Specializes in providing nurse staffing on a "rapid response" basis.	Majority stake acquisition. Price was not disclosed. September 2015.	Thomas H. Lee Partners
InDemand Interpreting	Tukwila, WA	Provider of remote video-based interpretation services.	$12.8 million in 2 rounds of growth equity. Last round in May 2015.	Health Enterprise Partners; Fifth Province Ventures
PSKW	Bedminster, NJ	Provider of patient prescription medication assistance solutions and payment reimbursement services.	Expansion capital. Deal terms not disclosed. October 2015.	Genstar Capital
Specialdocs	Highland Park, IL	Provides nationwide consulting services to physicians transitioning from traditional medical practices to independent "concierge" practices.	Recapitalization. Deal terms undisclosed. November 2015.	Shore Capital
Surgical Solutions	Henderson, KY	Provides hospitals, doctors and staff with products and equipment and the skilled personnel to facilitate workflow and inventory management in the operating room.	Undisclosed. December 2014.	Sterling Partners
Vision Radiology	Pittsburgh, PA	A provider of remote radiology services to emergency rooms.	Expansion capital. Deal terms not disclosed. October 2015.	Acacia Partners

Source: Connections in the Middle Market develop infrastructure to take a more aggressive approach toward reaching physicians who are contemplating the concierge medicine model.

"Concierge medicine is a multi-billion dollar industry. We feel like we are still scratching the tip of the iceberg in terms of the number of physicians that are converting," said Cooper. "There is still a lot of white space for companies that want to serve this market."

SURGICAL SERVICES

Kim Vender Moffat, a principal at Sterling Partners, notes that, even though the medical outsourcing market has existed for decades, it has really gained steam over the last five or six years, with a lot of mutual success for both healthcare providers and the outsourcers.

"Many large healthcare [providers] are ramping up their outsourcing efforts as the number of companies offering new services proliferates," she said. "Overall, hospitals are seeing results both in terms of improved quality and lower costs. That success is helping to fuel even more activity in the space."

Sterling Partners recently invested in Surgical Solutions, an outsourced provider of equipment and personnel. Founded in 2007, the company aims to make operating rooms run more efficiently and cost-effectively by taking on administrative tasks associated with laparoscopic and endoscopic surgery. It provides its own surgical equipment so hospitals don't have to make large up-front investments. And it also provides 24/7 on-site clinical technicians.

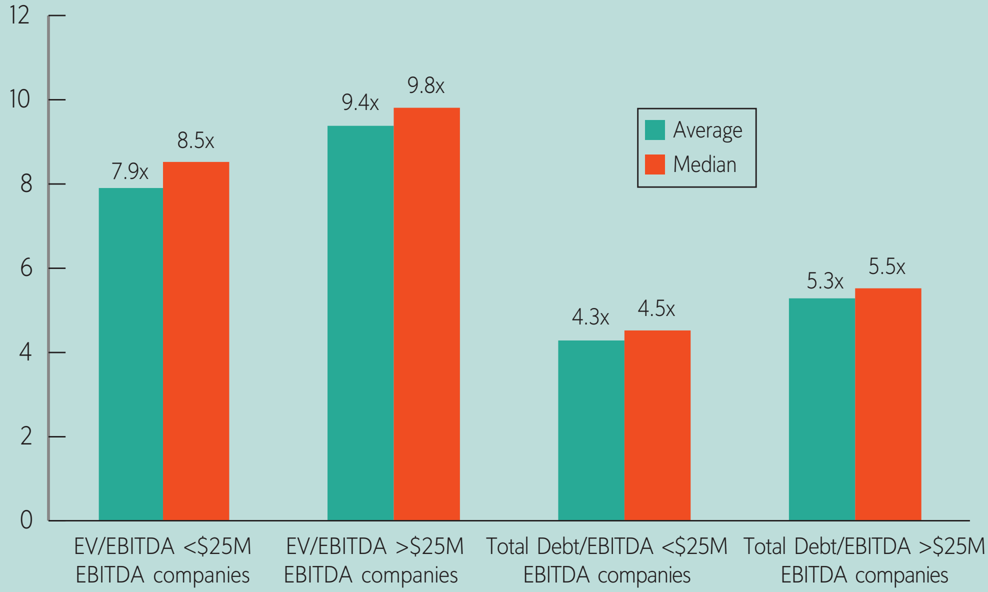
While Moffat wouldn't disclose financial details surrounding this deal, she said that Sterling Partners typically targets majority equity investments ranging from $40 million to $200 million. Surgical Solutions has a national footprint with several hundred employees serving large and small, urban and rural hospitals and hospital systems. Sterling Partners plans to partner with management and augment Surgical Solutions's infrastructure to support growth in number of services offered and regions served.

Investors like Moffat are encouraged by the fact that their medical outsourcing investments have a clear path to exit. She said these are businesses with many logical buyers, including other private equity firms, as well as strategic buyers that are building up a full suite of outsourcing services and are looking for additional offerings.

"This is an opportunity that is far from exhausted," said Moffat. "There is an ever expanding and ever evolving universe of outsourced services for the healthcare market. We expect to see robust activity in this space for years to come."

Year-end deal pricing and leverage multiples

Buyouts Insider conducted a late 2015-early 2016 survey on deal pricing and leverage multiples in the North American middle market. We received responses from six leading investment banks: Carl Marks Advisors, Duff & Phelps, Harris Williams, Lincoln International, Raymond James and Stifel Investment Banking.

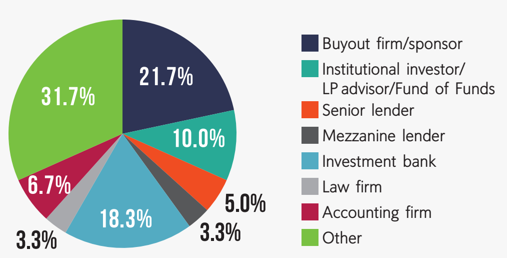


Source: Survey of six North American mid-market investment banks: Carl Marks Advisors, Duff & Phelps, Harris Williams, Lincoln International, Raymond James and Stifel Investment Banking. If a bank provided a range for a particular data point we took the mid-point of the range to generate these statistics.

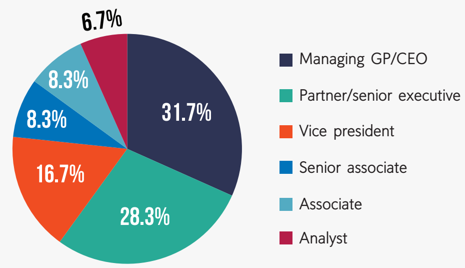
Where are deal prices and credit markets heading?

Buyouts Insider conducted a late 2015-early 2016 survey on deal pricing in the North American middle market. We received responses from 60 firms and this report is a statistical analysis of their data.

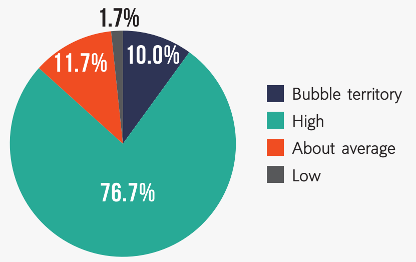
Here's who responded: by firm type



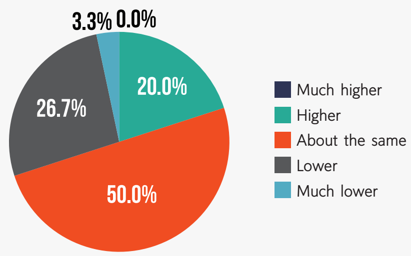
Here's who responded: by job title



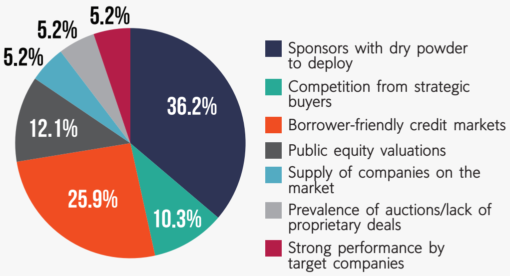
How would you describe deal pricing in the North American middle market right now?



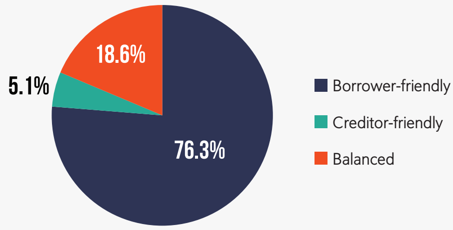
Where do you see prices heading in the North American middle market over the next 18 months?



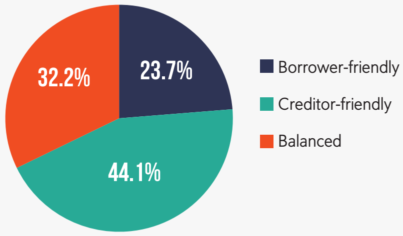
What is the biggest factor sustaining prices right now?



How would you describe the strength of the credit markets over the past 12 months?



How do you anticipate the credit markets to be over the next 12 months?



Source: Survey of 60 mid-market investment professionals by Buyouts Insider

Top ways sponsors are dealing with high prices (respondents could pick more than one answer)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SOVEREIGN WEALTH FUNDS LIKE WHAT THEY SEE IN U.S. MIDDLE MARKET

BY DAVID TOLL

Sovereign wealth funds manage staggering sums of money. But that doesn't mean they're so big they only invest with the likes of Blackstone Group, Carlyle Group and Kohlberg Kravis Roberts & Co.

From the **New Zealand Superannuation Fund** to the **Saudi Arabia General Organization for Social Insurance**, from the **Alaska Permanent Fund Corporation** to the **Abu Dhabi Investment Authority**, sovereign wealth funds are channeling money into U.S. mid-market funds.

They are also adding to the industry's shadow-financing pool by making co-investments alongside fund managers. The lengthy list of mid-market buyout and growth equity sponsors that have raised money from SWFs includes **Columbia Capital**, **Frazier Healthcare Partners**, **H.I.G. Capital**, **JMI Equity**, **Sun Capital** and **TA Associates**.

The biggest SWFs—inclined to make $100 million to $200 million commitments or more—may largely confine themselves to backing mid-market funds of at least $1 billion to avoid accounting for more than 10 percent of a fund, according to **Justin Garrod**, managing partner and co-founder of placement agency **Stonington Capital Advisors**.

But many SWFs also are finding a way to back funds as small as just a few hundred million dollars, often through an intermediary, such as a managed account or funds of funds. Consider that **RCP Advisors**, the Chicago funds-of-funds manager trained on buyout funds of $200 million to $1 billion, has the $85 billion **Australian Government Future Fund** as a backer.

Peter Petrillo, executive vice president of the direct equity division of **Wafra Investment Advisory Group**, which invests money in the U.S. middle market on behalf of several SWFs in Kuwait, called SWFs particularly "sophisticated" investors. "So they have an understanding that the middle market...is more of an inefficient frontier, and [that by] working with good managers they can take advantage of those inefficiencies versus other asset classes."

To be sure, SWFs haven't always placed their bets on the U.S. middle market—not a big surprise given that one of the defining features of many SWFs is that they try to time markets.

After the financial crisis, many SWFs turned their backs on the United States, worried about having to endure a lengthy period of turmoil, according to **Kelly DePonte**, managing director at placement agency **Probitas Partners**. Instead they moved on to growth opportunities in Asia and Latin America. Subsequent economic troubles in those markets, combined with a scarcity of experienced managers, convinced them to turn back to the United States. Today they consider investments in the U.S. middle market "core holdings," said DePonte.

"The U.S. market has a number of experienced investment professionals who have been through investment cycles."
—Kelly DePonte, managing director, Probitas Partners

One of the biggest attractions is the thirty-plus-year history of the asset class. "The U.S. market has a number of experienced investment professionals who have been through investment cycles," said DePonte. Another is the plethora of small and mid-sized companies available to be acquired, improved and sold for a higher price. "It's not a totally shopped market," DePonte said. "You're able to buy things at a decent price."

SELECT SOVEREIGN WEALTH FUNDS AND THEIR PRIVATE EQUITY PROGRAMS

	HEADQUARTERS	U.S. OFFICE	CONTACT	SIZE IN US $B (ESTIMATE)
Abu Dhabi Investment Authority	Abu Dhabi, United Arab Emirates	Said to be planning a New York office	Craig Nickels, head of U.S. fund investments	773
Abu Dhabi Investment Council	Abu Dhabi, United Arab Emirates			90
Alaska Permanent Fund Corporation	Juneau, Alaska	Juneau, Alaska	Stephen Moseley, director of investments, private equity and special opportunities	53
Australian Government Future Fund	Melbourne, Australia		Steve Byrom, head of private equity	85
British Columbia Investment Management Company	Victoria, Canada		Gordon Fyfe, CEO and CIO	90
Brunei Investment Agency	Brunei			40
China Investment Corp (CIC)	Beijing, China	New York, NY	Linbo (Ludwig) He, senior managing director, head of private equity investment department	750
Canada Pension Plan Investment Board	Toronto, Canada	New York, NY	Mark Jenkins, senior managing director and global head of private investments	206
GIC Private Ltd (formerly the Government of Singapore Investment Corp)	Singapore	New York, NY and San Francisco	Jason Young, senior vice president	100
Hong Kong Monetary Authority	Hong Kong		Sojin Chung, investment professional	415
Japan's Government Pension Investment Fund	Tokyo, Japan		Hiromichi Mizuno, chief investment officer	1200
Korea Investment Corp	Seoul, S. Korea	New York	Sean Nolan, deputy director, private markets	85

PE ALLOCATION (ESTIMATE)	PE INSIGHTS
Allocation target range of 2 percent to 8 percent	Launched in 1989, the ADIA private equity portfolio is one of the largest in the world. It includes both fund investments and co-investments in all major sub-asset classes and geographies. In late 2014 the head of U.S. fund investments said that ADIA was "stumbling into the middle market in the U.S." Has backed Oak Hill Capital Partners, Terra Firma Capital Partners and Thomas H. Lee Partners.
	Manages a diversified PE portfolio, with an emphasis on the Middle East and other emerging PE markets. Invests through funds, as well as through secondary and direct investments.
6 percent target allocation/7 percent actual allocation	This 10-year-old, growth-oriented private equity portfolio includes venture capital funds, buyout funds of every size and distressed credit funds. Nearly three-quarters of the capital is invested in the United States, 18 perent in Europe and 5 percent Asia. Also makes secondary investments, direct investments and co-investments.
10 percent	Manages a diversified PE portfolio including buyout, venture capital, growth equity and special opportunity funds. Its U.S. sponsors include American Industrial Partners, Bain Capital, Berkshire Partners, GI Partners, and Hellman & Friedman. The firm has also backed RCP Advisors, a manager of lower-mid-market funds of funds. Recently sold a $1 billion portfolio of fund interest on the secondary market to Canada Pension Plan Investment Board (CPPIB).
4.8 percent	Has recently had an appetite for U.S. and European buyout funds as small as $750 million, and has backed such managers as Apollo Global Management, Canaan Partners, Cartesian Capital Group, Castlelake LP, Energy Capital Partners, Francisco Partners, TA Associates, TorQuest Partners and TPG Capital.
	Backs buyout, venture capital and growth equity investments around the world.
	Known to back buyout and growth equity investments, as well as funds of funds across all major geographies; will back first-time funds and make co-investments
15 percent (private investments)	CPPIB is mainly focused on direct investments, often made alongside sponsors in its fund portfolio. Since 2003 GCM Grosvenor has created a series of three "mid market opportunity" funds for CPPIB totaling $840 million.
9 percent	Known to have an appetite for smaller buyout funds and venture capital funds; has backed funds from Audax Group, Berkshire Partners, Carlyle Group, Court Square Capital, Great Hill Partners, Jordan Co., Oak Hill Capital Partners, Sun Capital and Thomas H. Lee Partners; 15 years ago GIC might have backed a fund as small as $400 million although that's probably a bigger number today; GIC has a reputation, compared with other SWFs, for being particularly institutional and by-the-book; it is a significant direct investor, and recently teamed up with Advent International and Bain Capital to spend $350 million for a minority stake in engineering outsourcing firm QuEST Global Services.
3 percent	Backs a variety of private equity investments, including buyout and growth equity, across all major regions; will back a first time fund; makes co-investments.
Up to 5 percent of assets can go into infrastructure, private equity and real estate	Last June struck a deal with the World Bank's IFC to provide $500 million to invest in private equity in emerging markets.
4 percent	Backs buyouts, distressed debt, venture capital, special situations and other investments across all regions; has appetite for co-investments.

SELECT SOVEREIGN WEALTH FUNDS AND THEIR PRIVATE EQUITY PROGRAMS (CONT.)

	HEADQUARTERS	U.S. OFFICE	CONTACT	SIZE IN US $B (ESTIMATE)
Kuwait Investment Authority	Kuwait City, Kuwait			590
Libyan Investment Authority	Tripoli, Libya			70
Mubadala Development Company	United Arab Emirates		Sinisa Papp, senior vice president	66
National Social Security Fund of China	Beijing, China			150
New Zealand Superannuation Fund	Auckland, New Zealand		Matt Whineray, chief investment officer	19
QIC	Brisbane, Australia	San Francisco	Matt Diestel, vice president-global private equity	53
Qatar Investment Authority	Qatar		Richard Sharpe, investment professional	335
Saudi Arabia General Organization for Social Insurance	Riyadh, Saudi Arabia			450
State Administration of Foreign Exchange	Beijing, China			550
State Oil Fund of the Republic of Azerbaijan	Baku, Republic of Azerbaijan			33
Temasek Holdings	Singapore	New York, NY	Mukul Chawla, managing director	190
Texas Permanent School Fund State Board of Education	Austin, Texas		John Grubenman, director-private markets	29
United Nations Joint Staff Pension Fund	New York, NY	New York, NY		50
Total				$6.5 trillion

PE ALLOCATION (ESTIMATE)	PE INSIGHTS
6 percent	Launched in 1984, the private equity portfolio includes funds earmarked for all major strategies, including venture capital, in North America, Europe and emerging markets. KIA will make co-investments alongside sponsors. KIA, which counts StepStone as an advisor, says on its website it won't directly back a North American fund smaller than $1.5 billion, an emerging markets fund smaller than $1 billion and a European fund smaller than Euro 2 billion; however, through a separate program KIA is believed to be committing more than $100 million per year to buyout funds of all sizes. Wafra Investment Advisory Group, owned by the Public Institution for Social Security in Kuwait, also invests KIA money in the U.S. middle market.
	Backs buyout, distressed debt and growth equity investments in the Middle East and developed markets.
	Backs buyouts around the world; acquired a minority stake in The Carlyle Group in 2007.
	Reportedly had plan to invest up to $7.8 billion in Chinese private equity market by end of last year; also backs buyout, growth equity and funds of funds in North America and Europe; has an appetite for first-time funds.
3 percent	Sponsors backed by the fund include Adam Street Partners, Apollo Global Management, HarbourVest Partners, Hellman & Friedman, H.I.G. Capital and JMI Equity. In early 2014 the fund made a big bet on energy, commiting to invest $250 million in North American oil and gas investments alongside Kohlberg Kravis Roberts & Co.
7 percent	QIC, which has been investing in private equity since 2005, makes commitments around the world to lower-middle-market buyout funds of $200 million to $750 million. It co-invests alongside a core group of some 15-20 firms, including Columbia Capital, Frazier Healthcare Partners and TSG Consumer Partners.
	Backs buyouts and venture capital investments across all major regions; has an appetite for co-investments; along with Colony Capital, QIA was part of an investment group that purchased Miramax from Disney in 2010.
	Is an active private equity investor with an appetite for buyout funds of all sizes. Counts StepStone as an advisor.
	Portfolio is diversified by strategy and region.
	Backs buyouts and co-investments in North America, South America, Europe and emerging markets
33 percent of portfolio is invested in unlisted assets	Known to have an appetite for mid-market buyout funds and co-investments; has backed such firms as Affinity Equity Partners, Candover Investments PLC and Madison Dearborn Partners.
5 percent (10 percent target)	Invests in buyout funds, distressed debt funds, venture funds, growth equity funds, mezzanine funds, special situation funds and secondaries across Europe and North America; will back first-time funds; has an appetite for co-investments; invests through separate accounts.
3.5 percent in alternatives/target is 5 percent	Is an active private equity investor with an appetite for buyout funds of all sizes. Counts StepStone as an advisor.

Source: Sovereign Wealth Institute, Preqin, Dow Jones, SWF web sites

Meantime, SWFs realize that the credit markets have been more consistently available to finance mid-market deals, compared with mega-deals.

The collective interest by SWFs in the U.S. middle market is having a profound impact on fundraising. *Connections in the Middle Market* has identified more than two dozen with a known appetite for U.S. buyout funds or co-investments (see table, pp. 20-23). Together they control an estimated $6.5 trillion in assets. Given their typical allocation target to private equity of 5 percent to 10 percent, SWFs have a staggering amount of money to add to the collective war chests of U.S. sponsors. In fact, a good estimate for the portion of all capital raised by U.S. sponsors from SWFs is a substantial 15 percent, second only to public pensions.

SO, HOW DOES A SWF BEHAVE?

Broad agreement is missing on how to define SWFs but in this article we use the term to include all government-controlled investment pools. Excluded are U.S. pension funds, since they constitute such a large source of capital in and of themselves.

Despite the difficulty of broad generalizations, advisors, placement agents and the SWFs themselves point to some defining characteristics. SWFs fall into two broad camps. Those that manage pension money, so-called "liability-driven" investors, behave by and large like pension funds. They tend to be conservative when it comes to taking risk, steadfast in hewing to a long-term strategic plan, and unmoved by the latest investment trend.

SWFs that aren't liability-driven tend to be more opportunistic, more apt to time markets. Korean SWFs, many of which are new to the asset class, are a good example. Whereas many big investors pick the best private-equity managers they can, and back them so long as they continue to perform, Korean SWFs tend to first pick an investment strategy that they feel will outperform over the next few years, said Probitas Partners's DePonte. They then, in effect, put out requests for proposals for managers. One upshot: they may miss backing a strong firm if it happens to be out of the market.

Like most institutional investors, these opportunistic SWFs may be sticklers for process and paperwork and put sponsors through a rigorous due diligence. Success depends on running a gauntlet of screens and tests.

But other opportunistic SWFs, no matter how large, behave more like small family offices. What matters most are relationships built up over months or years. Said one advisor to LPs who wished to remain anonymous given the sensitivity of the subject: "You get the feeling that the decision-making [at these SWFs] is driven by a small group of individuals rather than an institutional decision-making process that GPs might be more familiar with..."

The biggest SWFs often employ large private equity investment teams that relish making decisions themselves. They eschew third-party advisors or funds of funds. Several, including **GIC Private Ltd** and **Temasek Holdings**, have boots on the ground thanks to investment officers working in U.S. offices. Seven international SWFs on our list of 25 have U.S. offices.

That said, even the largest SWFs may not have the expertise to navigate the hundreds of investment opportunities in the U.S. middle market. Their high minimum commitment sizes can make it impractical to back smaller buyout funds. This has created an opportunity for advisors. Some create bespoke managed accounts; others invite the SWFs into their co-mingled funds of funds. Among some of the more prominent programs:

• **StepStone** advises a number of SWFs, including **Kuwait Investment Authority**, **Saudi Arabia General Organization for Social Insurance** and **United Nations Joint Staff Pension Fund**. The three programs are believed to be active, covering buyout funds of all sizes, together representing potential commitments of hundreds of millions of dollars per year.

• **MLC Private Ltd**, which last year opened an office in New York City led by **Andrew Kwee**, is known to handle a lot of private equity work on behalf of Australian pensions; it has a particular appetite for buyout funds under $1 billion in size.

• **GCM Grosvenor** has run a mid-market buyout program for CPPIB that has grown to more than $840 million in commitments since 2003; it is also said to have done work for **China Investment Corporation** (CIC) and **Korea National Pension Fund**.

• Wafra Investment Advisory Group, owned by the **Public Institution for Social Security in Kuwait**, manages upwards of $20 billion, mainly on behalf of its parent and other SWFs in Kuwait although it has launched an initiative to expand its investor base outside the Middle East. The firm's alternative investment group, with about $4 billion under management, has taken minority positions in **Stone Point Capital** and **TowerBrook Capital Partners** as part of its GP buyout program; its private asset management group, with about $3 billion under management, backs middle-

> “What I’ve found over time is that if you team up with the right managers, interesting co-investment deal flow falls out of that.”
>
> —Stephen Moseley, director of investments, private equity and special opportunities, Alaska Permanent Fund Corporation

Six tips when raising money from SWFs

1. Do your homework to make sure you have a chance for a commitment before visiting a SWF; many are so enormous that their minimum commitments would overwhelm smaller funds;

2. Investment officers at SWFs without U.S. offices may be particularly attracted to brand names that they recognize; to raise significant sums from SWFs firms without strong brands abroad might want to consider partnering with firms that do have them;

3. Recognize that getting commitments from SWFs can depend more on relationships cultivated over many years than anything else; expect to have many more meetings than you would with a prospective U.S. investor;

4. Zero in first on the SWFs that have U.S. offices, or that will send ambassadors to your office; those with U.S. offices tend to have higher allocations to North American private equity;

5. Show a lot of respect for the needs of the SWFs and what they're trying to achieve;

6. Offer co-investment opportunities to address the need for SWFs to find ways to put more money to work in the asset class

Source: Probitas Partners, Stonington Capital Advisors

market buyout and mezzanine funds around the world. Wafra's direct equity division, with some $400 million under management, acquires U.S. and Canadian lower-mid-market companies in consolidating markets in consumer products, niche manufacturing and business services.

MAINTAINING A STEADY PACE

Interested in getting on the radar of the $50 billion-plus **Alaska Permanent Fund Corporation**? Provide co-investment opportunities, either guaranteed in the LP agreement or on a less formal basis.

Stephen Moseley, recently promoted to Alaska Permanent Fund's director of investments, private equity and special opportunities, said that while the co-investment program is less than two years old his private equity team already spends over half of its time on co-investments. He called such investments a "good way" to get to know the partners of a firm better.

Co-investments are not a requirement, or necessarily even an expectation, when it comes to making a fund commitment. Moseley said that his top priority in building a portfolio is to pick the best fund managers. Still, Moseley said, "what I've found over time is that if you team up with the right managers, interesting co-investment deal flow falls out of that."

The Alaska Permanent Fund, which has a 6 percent target allocation to private equity, saw its 10-year-old portfolio reach $3.2 billion in value and $5.8 billion in cumulative commitments by the end of last June.

Compared with other institutional programs the portfolio leans heavily toward fast-growing industries. The legacy portfolio consists of some 270 separate commitments to 130 sponsors specializing in venture capital funds (about 27 percent of portfolio), small buyout funds of under $200 million (21 percent), mid-sized buyout funds of $200 million to $1 billion (30 percent), large buyout funds of more than $1 billion (15 percent) and specialized distressed credit funds (5 percent).

By region, about 72 percent of the capital is earmarked for the United States, 18 percent Europe and 5 percent Asia. The Alaska Permanent Fund also has a 20 percent target allocation to special opportunities. The program includes some private equity, including investments in healthcare start-ups and a commitment to the third fund of **Dyal Capital Partners**, earmarked for minority investments in private equity firms.

About two years ago, just as Moseley joined, Alaska Permanent Fund decided to bring most of its private equity program in-house. It let a five-year contract for discretionary work with **HarbourVest Partners** expire and modified the discretionary assignment it had awarded to **Pathway Capital**. Since then it has ramped up the program every year.

Alaska Permanent Fund Corp's PE Performance

VINTAGE YEAR		
VINTAGE YEAR	APFC IRR	MEDIAN IRR BENCHMARK
2005	11.3%	7.3%
2006	8.4%	6.2%
2007	12.1%	8.3%
2008	12.2%	10.3%
2009	15.5%	13.0%
2010	17.8%	11.0%
2011	12.8%	11.7%
2012	23.4%	10.6%
2013	11.5%	6.6%
2014	N/M	N/M
Total	11.8%	9.6%

BY TIME HORIZON		
HORIZON	APFC	PE Industry
1-year	12.7%	7.9%
3-year	17.7%	13.4%
5-year	15.9%	13.1%
Since Inception	11.8%	9.6%

Source: Alaska Permanent Fund Corporation

In its 2015 fiscal year ending June 30 the fund committed $800 million to 19 funds. In the last 12 months Alaska Permanent Fund has backed the latest growth equity and mid-market buyout funds of **American Industrial Partners**, **Catterton Partners**, **Centerbridge Partners**, **Genstar Capital**, **Harvest Partners**, **Nautic Partners**, **Ridgemont Equity Partners** and TA Associates, among others.

The SWF also made four co-investments totaling

$88 million in fiscal year 2015. These include investments in wind turbine company **Senvion SE** alongside Centerbridge Partners and in software company **Compuware Corp** alongside **Thoma Bravo**.

This fiscal year, said Moseley, Alaska Permanent Fund is up to $550 million in commitments on the way to a target of $900 million; it has also made two co-investments of about $41 million in total. While a typical fund commitment is on the order of $75 million, the SWF might commit less or more depending on the situation. Alaska Permanent Fund can account for up to 100 percent of the size of a fund—and has done so in many cases.

> "We appreciate the risk-return profile of businesses in the lower middle market."
>
> —Matt Diestel, VP-global private equity, QIC

Looking ahead, said Moseley, Alaska Permanent Fund continues to be drawn to the U.S. middle market. It's where the SWF has found an abundance of "really talented managers applying specialized skills" to long-term investment opportunities, undistracted by the demands of managing a large, diversified shop. The SWF also prefers to be a "significant investor" in each fund, which is easier to accomplish in the middle market.

"All other things being equal I'd have a natural bias toward an existing relationship," said Moseley, adding that he spends a lot of time on the road and that it's not "required or expected" for sponsors to visit Juneau, Alaska. Still, the SWF is open to new relationships, including with first-time fund managers, such as **Glendon Capital Management**, a firm founded by former **Barclays** executives.

"It's not easy but when we can find new groups with some demonstrable history and credibility that's really exciting," he said.

CO-INVESTMENTS SOUGHT

As with Alaska Permanent Fund, a good way to get on the radar of Brisbane, Australia-based **QIC**, created in 1991 by the Queensland government to manage pension assets, is to offer co-investment opportunities in the lower middle market.

Since 2007 QIC has completed some 24 co-investments alongside a group of 15-20 core sponsors, including Columbia Capital, Frazier Healthcare Partners, **TSG Consumer Partners** and **Webster Capital**. Among its best-performing co-investments were a pair of 2012 deals—one done alongside TSG Consumer Partners gymnasium chain **Planet Fitness** (now public) and another done alongside Columbia Capital in technology consulting firm **Cloud Sherpas** (recently sold to **Accenture**). The firm invests both through separate accounts and through a dedicated co-investment pool of A$150 million ($108 milllion).

As of year-end the co-investment portfolio was valued at A$800 million, while the entire private equity portfolio, including fund investments, secondary buys and co-investments, was valued at a little over A$5 billion. The firm has relationships with more than 50 sponsors altogether. About two-thirds of its capital goes to the more developed private equity markets in the United States and Europe. The rest goes to Australia and Asia.

Matt Diestel, vice president-global private equity based in San Francisco, said he spends a third to half of his time evaluating venture capital and growth equity opportunities and the balance on buyouts. The firm is particularly interested in backing specialists with a track record of creating value in healthcare services, consumer goods, specialty manufacturing and technology.

Part of a 13-investment-professional private equity team located in Brisbane, Europe and the United States, Diestel said that QIC wants "meaningful" exposure to the buyout funds that it backs. In any given year expect the firm to commit $200 million to $300 million to funds and $150 million to $200 million in co-investments. In both cases the firm looks to put $15 million to $50 million to work at a time.

Lower-middle-market buyout funds of $200 million to $750 million in size make up QIC's sweet spot. "We appreciate the risk-return profile of businesses in the lower middle market," Diestel said. "They are very much real businesses with good management teams," he added, but they can often benefit from an infusion of capital to finance, say, a consolidation strategy.

In addition, the firm finds less competition for co-investment opportunities, and more of an opportunity to scrub through a deal on its own. That makes it more of a "true capital partner" to the sponsor, said Diestel. In the upper middle market, by contrast, co-investments resemble "more of a syndication process," he said.

Diestel said that the firm's co-investment portfolio has been "super-helpful" in boosting returns on the private equity portfolio, having generated 33 percent per year net returns, well ahead of the 19 percent net IRR achieved by the entire program. He added: "It's been pretty incredible."

ACTION ITEM: A good source of information on SWFs is the Sovereign Wealth Fund Institute at swfinstitute.org

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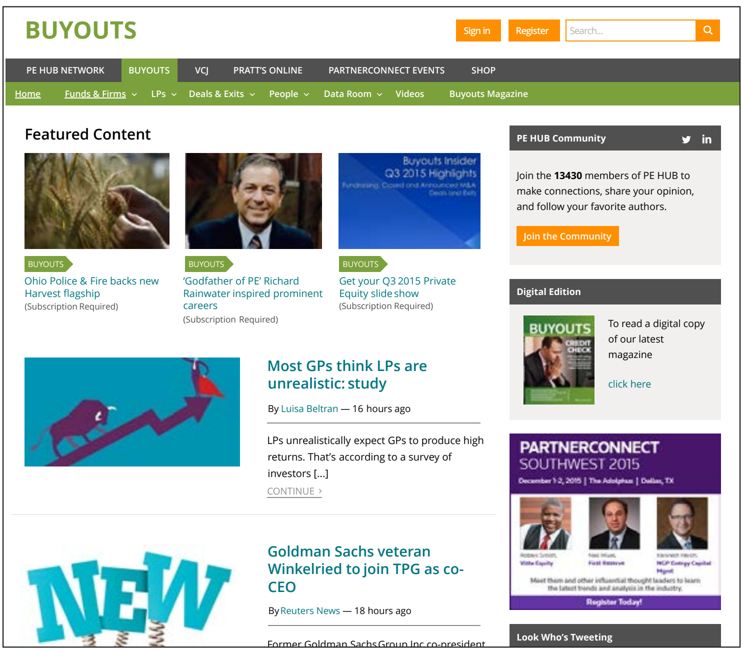

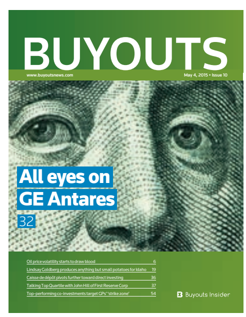

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DAVID TOLL is the executive editor of Buyouts Insider, where he oversees the editorial direction of Buyouts Magazine, Venture Capital Journal and the peHUB.com community website. David has been writing about the private equity markets since 1997, and publishes a bi-weekly column in Buyouts Magazine. He is the co-author of several survey-based studies on the private equity and venture capital markets, covering such topics as partnership terms and employee compensation. He is the chief cartoonist at privateequitycartoon.com.

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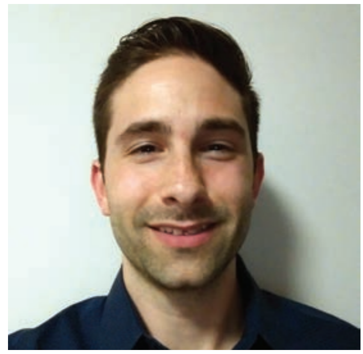
TOM STEIN provides a range of editorial and marketing services to corporate clients, including Yahoo!, Facebook, Sony, Oracle, Saatchi & Saatchi, Marvell, Microsoft and PayPal. His services include contributed articles, newsletters, white papers, website copy, social media content, and speeches. He has contributed to leading business and general interest publications including Buyouts Magazine, Wired Magazine, Forbes, Tennis Magazine, and Venture Capital Journal. Previously, Tom was a senior editor at Red Herring, a magazine where he covered start-ups and venture capital. He also worked as a staff writer at the San Francisco Chronicle, where he covered the tech industry. Additionally, Tom served as a senior editor at InformationWeek and Success Magazine.



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PAUL CENTOPANI is a writer and developer of media and editorial in print, online and presentation formats for Buyouts Insider. His work centers on plumbing the private equity industry for trends and ideas that can be turned into thought-provoking, high-quality content. His stories have been regularly featured in Buyouts Magazine, Venture Capital Journal and the peHUB.com community website. Earlier in his career Paul was a pricing analyst and senior consultant for defense contractor Booz Allen Hamilton. There he managed more than 600 proposals representing nearly $900 million in value.

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