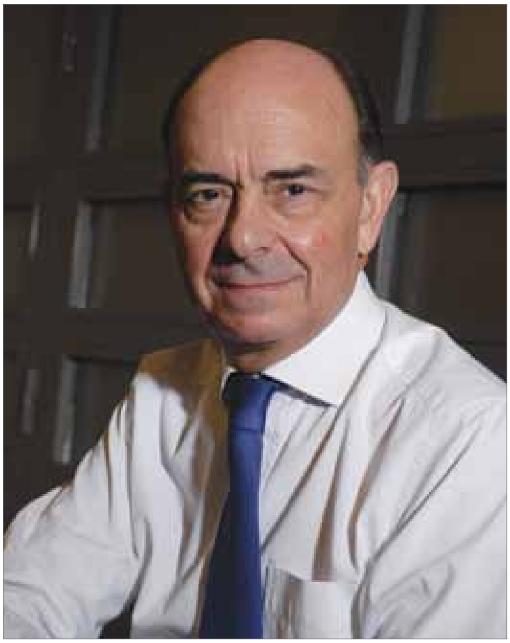
# Back to the future

## Fondinvest managing partner Charles Soulignac tells *PEI* why the future for primary and secondary private equity investing looks a lot like the past: focused on the small and mid-market



*Soulignac: deals will flow*

They say every cloud has a silver lining. When *PEI* visits Charles Soulignac, managing partner of Fondinvest Capital, at his Parisian office, he is found in sanguine mood, despite the recessionary clouds still hanging over Europe.

"I am not an economist," he says, when asked whether we are on the brink of recovery or the second downswing of a "double-dip" recession. "But I will say that while no one wants a continued recession, on the other hand it could help the secondaries market."

He is referring to the need for liquidity among some LPs, and their resulting need to sell interests in the secondaries market. He qualifies the point that a continued recession would "not be very good" for the primary fund market.

From his position at the helm of Paris-, Tokyo- and San Francisco-based Fondinvest, Soulignac is well positioned to comment on both the primary and secondary fund management arenas. The firm has raised more than €2 billion for primary and secondary fund investments and separate managed accounts from LPs in Europe, the US and the Middle East since 1994.

Fondinvest's latest secondaries vehicle, a €360 million fourth generation fund, is still in its very earliest stages of deployment. It is the right size of fund, says Soulignac, to play in the small- to mid-market fund space. As with the firm's primary fund investment business, the secondaries funds seek investments in funds of between €100 million and €700 million in total size. It deploys around 80 percent of its capital in Europe, with the remainder in the US and Asia in deals that range in size from €500,000 to €100 million.

This focus on the smaller end of the scale, says Soulignac, means the firm does not have to compete with the multi-billion Euro secondaries funds that have been raised in the last four or five years. "We manage a size of fund that works well at this level," he explains.

Fondinvest's focus on smaller funds meant that during 2009 there were not many deals to be done. "We saw during the last two or three years a lot of opportunities, but mostly in the large and mega fund space – often heavily uncalled early secondaries," he says. The market has also recently been characterised by sellers testing the water; they want to get an idea of the prices in the market, but are not motivated sellers, further frustrating deal flow.

### Deals flow

Soulignac reports a greater number of concrete opportunities for investors in the small and mid-market fund space now starting to materialise: "More LPs are thinking about their strategy, how their money is deployed and how they can rationalise their portfolio."

Deal flow is being helped by the fact that GPs are now taking a more favourable view of secondaries transactions within their LP base. They view the secondaries market increasingly as an LP tool to manage their private equity portfolio. GPs are also interested, says Soulignac, in introducing a secondaries player into their LP base if that secondaries player also happens to make primary commitments. It establishes a potentially fruitful new relationship.

Notwithstanding the increasing number of opportunities now flowing in from all areas of the LP spectrum – banks, insurance companies, family offices and pension funds – what does Soulignac think of the idea that there is too much money chasing too few secondaries deals? "In the coming years, it will not be the case," he asserts: "If you look at the money raised for primary funds – a lot of mega funds – during 2005 to 2008, it is a lot. There will be a need for liquidity among LPs. If you go by the premise that 2 or 3 percent of these fund interests will be on the secondaries market five years later, the supply should naturally start to increase this year." It is, he says, part of the private equity cycle.

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Soulignac underlines three things you need to know before buying a secondary fund interest. Firstly, you need to establish the motivations of the seller. You need to understand that the pace of the process will be very different depending on whether the seller is in some sort of distress or has time to take a measured approach. Secondly, you need to have a good knowledge of the GP, know their track record and know how they operate.

Thirdly – importantly – you need to have a thorough understanding of the underlying assets, so you can form realistic return expectations. Getting to know the underlying assets became more difficult during the volatility of the financial crisis. During this period of uncertainty, Fondinvest sharpened its focused on those funds of which it already has detailed knowledge.

## Size matters

Despite the belief that recessionary pressure catalyses activity in the secondaries market, does Soulignac worry about the more immediate recessionary impact: that hurting portfolio companies will lead to a serious lull in private equity performance? "It all depends on the type of fund you invest with," he responds. "When you are in the small- and middle-market funds, you don't have the type of high leverage you get in the mega funds, so for us it will be roughly the same." He concedes that even at the smaller end of the market, realisations will take longer to achieve: "IRR will probably decrease, but the multiples will be the same."

As much of the developed world has navigated through the deepest recession in a lifetime – driven by a drought of credit – many critics have drawn attention to the crisis' impact on private equity as an asset class. During the darkest moments of the recession, some questioned whether the asset class would even survive. For those who kept to private equity's fundamentals, according to Soulignac, this was never a concern.

"We have stuck to our strategy for 20 years," he says. "We invest in funds of between €100 million and €700 million, which puts us in the small middle-market. This is where private equity came from and this is where private equity has been very successful and brings a lot to the economy. Investing in these companies you create a lot of value for the LP, GP and for the companies themselves. This is one of the most important elements of what private equity brings."

Soulignac has less surety for those funds which became more reliant on leverage: "For the large funds, it really depends on how the banks react in terms of providing debt to leveraged buyouts. This, for me, is the question mark." ■

### The Fondinvest Capital management at a glance

**Charles Soulignac, managing partner**
Charles Soulignac founded Fondinvest in 1994, having formerly managed private equity fund and direct investments for CDC-Participations. Prior to this he headed the Industrial and Finance Department for regional bank Banque Régionale d'Escompte et de Dépôts.

**Emmanuel Roubinowitz, partner**
A former direct private equity practitioner, Emmanuel Roubinowitz joined Fondivest in 2004 and became managing partner in 2006. He was previously an investment director at Nomura Private Equity in London and also worked at Morgan Stanley Capital Partners, also in London, on leveraged buyouts.

**Catherine Lewis La Torre, partner**
Catherine Lewis La Torre joined Fondinvest at the beginning of 2009, having previously co-founded Proventure, a fund-of-funds specialized in European mid-market investments. She has also worked for ABN AMRO Capital Investments and Cinven.