



Alternative  
Insight

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FOR THE WORLD'S PRIVATE EQUITY MARKETS

# PRIVATE EQUITY INTERNATIONAL

## **RAINMAKER 50**

The fundraisers shaping the private equity landscape

## **NORTH TO THE FUTURE**

Alaska Permanent Fund's supercharged PE portfolio

## **PRECISION ENGINEERING**

Executing a successful spin-out

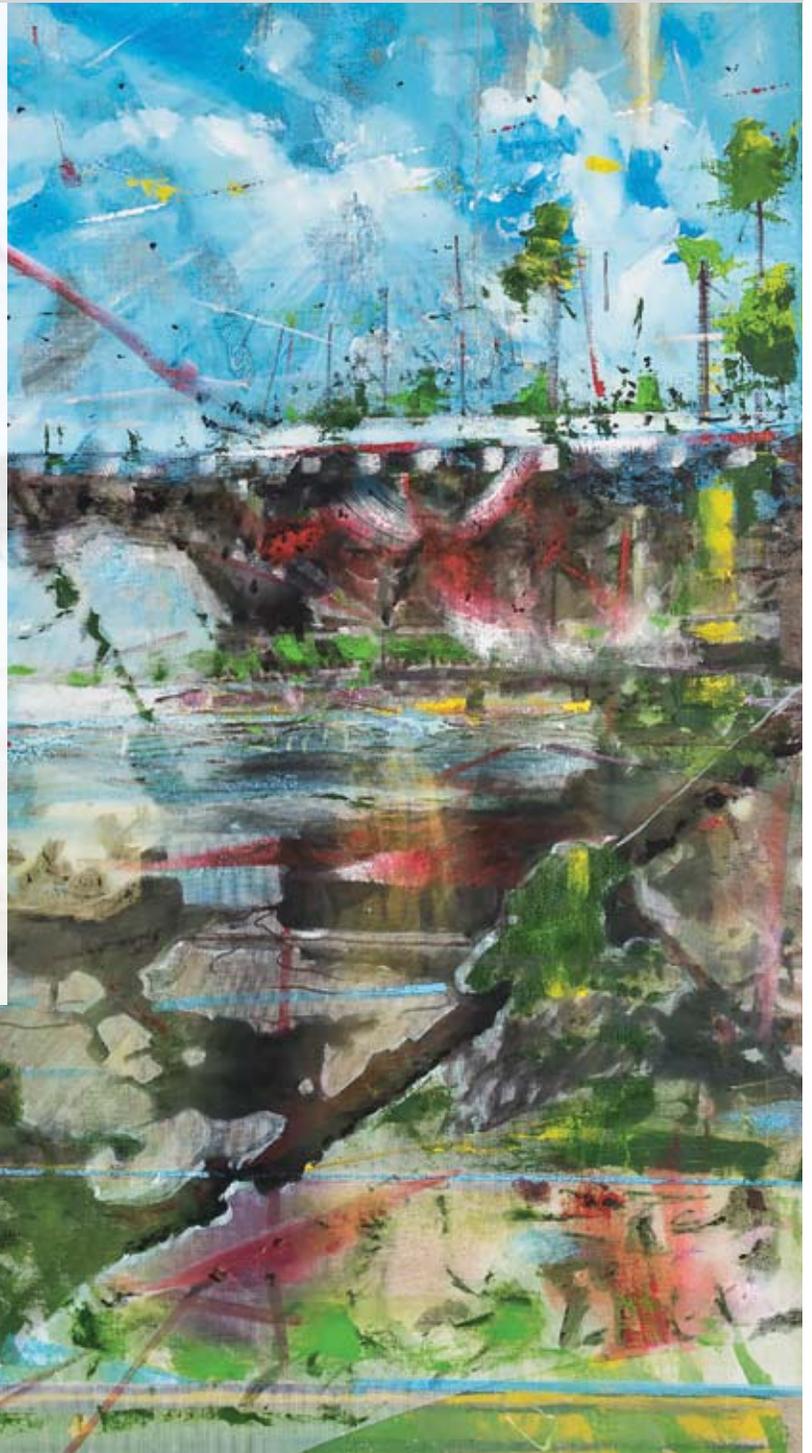
## **BUBBLE MENTALITY**

Stepping out of the PE echo chamber

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PRIVATELY SPEAKING

# Alaska rocks

The \$65bn Alaska Permanent Fund  
is creating a supercharged  
private equity portfolio, writes [Alex Lynn](#)



Alaska Permanent Fund is one of private equity's most zealous converts. The \$65 billion sovereign wealth fund has almost doubled its allocation and tripled its commitments to the asset class in under five years.

Its enthusiasm is paying off; Alaska's private equity programme returned 21 percent for the fiscal year 2017, compared with a 6.1 percent return from its US and non-US stock benchmark. A look at the most recent available data from its nearest US SWF peers, suggests Alaska is crushing it; Texas Permanent School Fund generated a 16.35 percent return on its \$2.3 billion private equity portfolio for the year ended 31 August, while New Mexico State Investment Council's earned just over 11 percent for the year to March 2017.

Juneau-based APF, established in 1976, invests oil revenues accrued by the state to generate annual dividends which it pays out to residents. Alaska Permanent Fund Corporation was launched in 1980 to manage these investments.

Between 2004 and 2013 the fund committed \$4.2 billion to private equity through two separately managed accounts.

Then Stephen Moseley arrived on the scene. As APFC's head of private equity, the former StepStone president has helped drive its total fund commitments, co-investments and direct investments to around \$12.3 billion as of December.

APFC committed more than \$1.2 billion to funds in 2017, up from \$867 million the previous year. The fund's private equity programme accounted for 19 percent of

its total assets as of June, with fund commitments comprising 7 percent while 4.3 percent is "special growth opportunities" (directs and co-investments).

It has deployed more than \$1 billion into 21 co-investments and direct investments since Moseley arrived. These deals were generating a 67.5 percent net IRR and 2.5x multiple on invested capital as of 30 September.

In January, APFC made a 9.7x cash-on-cash return from the sale of drugmaker Juno Therapeutics, a co-investment with Crestline Investors.

APFC intends to increase its overall PE exposure to approximately 14 percent in two years, with its composition expected to become "increasingly international," chief executive Angela Rodell tells *Private Equity International*.

"Recent programme growth reflects a natural progression as we've built up our team and resources," she adds. "Also, private markets investments fit well with the Permanent Fund's multi-generational investment horizon. These efforts have resulted in substantially higher absolute returns and improved diversification."

#### TASTEMAKER

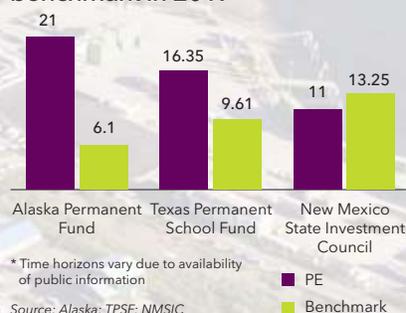
Alaska's success is due in part to its unusual taste in private equity funds. It is one of the largest participants in a growing trend: taking ownership stakes in general partners. The fund is a major supporter of the two biggest "funds of firms" that have closed, committing \$550 million to the \$5.3 billion Dyal Capital Partners III and \$500 million to the \$3.3 billion Blackstone Strategic Capital Holdings.

"We think this a juicy strategy," Moseley told *PEI* in November. "The purchase by LPs of GP stakes has been around for a long time, but with the advent of funds targeting this strategy, the institutional floodgates have opened."

APFC had generated a 37.5 percent one-year net internal rate of return across its direct GP interests, and 24.2 percent when combined with commitments to funds targeting a stake strategy, as of 30 June. It holds a direct stake in US-based »

#### WHAT GOES AROUND

Alaska's private equity return was more than triple that of its relative benchmark in 2017\*

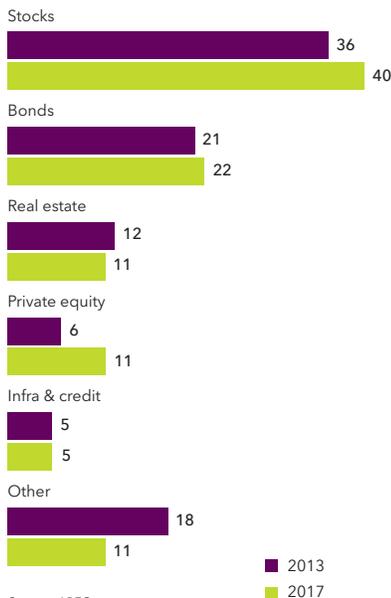


“This is the ultimate model of having a small team of very thoughtful people leveraging their GP network constructively to generate some really interesting dealflow, executing on it and delivering good returns

Unnamed GP

WHETTING ITS APPETITE

APFC has increased its target allocation to private and public equities in recent years (%)



» liquidity specialist Whitehorse and is understood to have positions in several Dyal portfolio companies, include Vista Equity Partners and EnCap, according to a source familiar with the fund.

APFC has also teamed up with UK private pension RPMI Railpen and Public Institution for Social Security of Kuwait to launch Capital Constellation, a \$700 million joint venture, managed by advisory firm Wafra, that will provide cornerstone fund commitments and scaling advice for emerging managers.

The platform will provide its owners with greater control over which funds it backs and when.

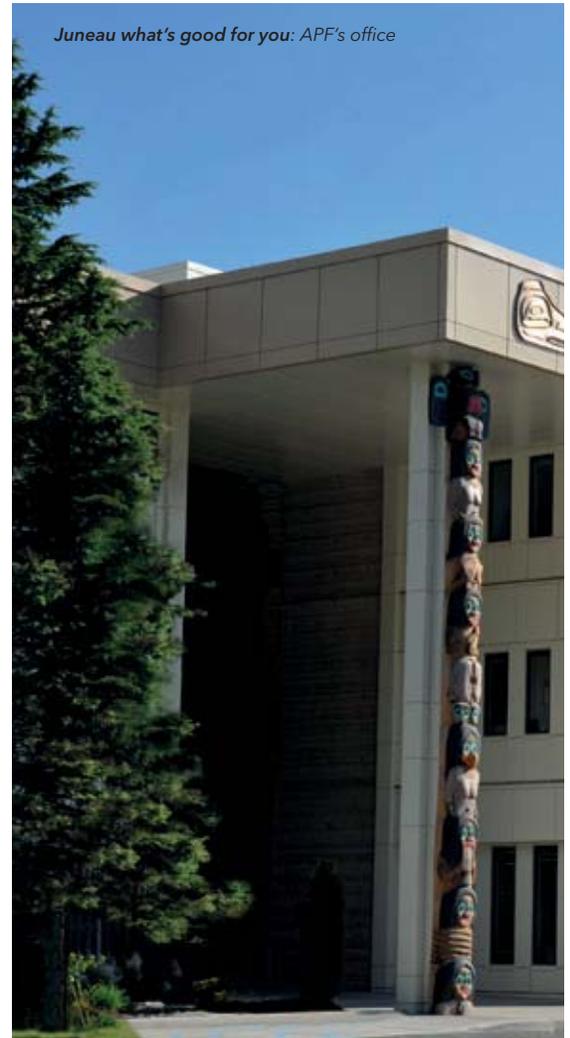
“It’s a form of frustration we always have that, as LPs, you can’t control who’s in the market,” Moseley said in February. Capital Constellation will seek to build a diversified portfolio of 10-12 emerging managers over the next five years, deploying over \$1.5 billion via fund commitments during this time.

This is not Alaska’s only creative approach. The LP often seeks to increase alignment with new strategies or managers by securing revenue-sharing arrangements – in other words a share of the GP’s management fees and carry – in exchange for a substantial cornerstone commitment. It is understood to have such covenants with the Dyal and Blackstone vehicles, and will do the same with the managers supported by Capital Constellation.

“It’s not unheard of for LPs such as family offices to seed emerging managers in exchange for a proportion of the management fee and/or carry,” Eamon Devlin, managing partner at fund lawyer MJ Hudson, tells PEI. “It’s become less common in the recent past because it’s been a good fundraising market so there’s no need to give away economics, though with emerging managers the LP has more negotiating power and can strike a better deal.”

APFC has also taken advantage of the secondaries market to reshape its portfolio.

Juneau what’s good for you: APF’s office



In January, sister publication *Secondaries Investor* revealed the fund was attempting to offload a portfolio of private equity stakes worth close to \$1 billion to redeploy capital into other strategies. The portfolio contained a diversified bundle of stakes by vintage, including a large commitment to a Blackstone fund, the sources said. First bids were due at the end of January on the portfolio, but the status of the deal is unclear.

TWO’S COMPANY

One could be forgiven for assuming Alaska’s rapid growth is the work of an entire team. In reality, the transformation is largely



“With a portfolio of good assets in a rising market the challenge isn’t reaching our target allocation. The challenge is not overshooting

Stephen Moseley

attributable to just two individuals; Moseley and senior portfolio manager Yup Kim.

“These guys are rock stars,” says a GP that has worked with them but wished to remain nameless.

“This is the ultimate model of having a small team of very thoughtful people leveraging their GP network constructively to generate some really interesting dealflow, executing on it and delivering good returns. They use their resources where they see the opportunity and just get things done – not many people execute and execute well.”

Before joining APFC, Moseley restructured, managed and sold Marston-Ross

Corporation, a Connecticut-based family office. He previously served as chief investment officer at Pacific Corporate Group, which provides advisory and fund of funds management for public pensions, and sits on the board of the Institutional Limited Partners Association.

Kim joined APFC in 2016 after two years at DB Private Equity in New York, where he was a vice-president focused on primary and direct investments, as well as a member of its global investment committee.

The pair may not be alone for long. In a recent board meeting, Moseley discussed one near-term appointment and

two additional hires, pending legislative approval, in 2018. When asked about future expansion, he suggested a physical presence elsewhere in the US.

“A forward operating base in the lower 48 [states] would be hugely helpful,” he told the board.

“I’d like to build the team and the business there and here in Alaska.”

#### UPSTAIRS DOWNSTAIRS

Moseley and Kim may be a small PE team, but they do not operate in a vacuum; APFC holds weekly investment committee meetings chaired by Rodell, which include all asset class and department heads. The fund is active in a broad spectrum of alternatives, including real estate, infrastructure, hedge funds and private credit.

“All of these programmes have deep teams of talented investors and have significantly outperformed relevant benchmarks for many years,” Moseley tells *PEI* when we catch up with him in March. The overall fund has returned 8.94 percent over the past five years, above its 7.96 percent benchmark, according to its latest annual report.

Alaska’s six-strong board of trustees sets investment policy, reviews performance and helps determine strategy, while delegating any day-to-day investment decisions to the APFC staff. Members of the board are appointed by the state governor.

Until APFC’s private equity team is reinforced, Moseley and Kim will have their work cut out to continue the growth in which they have played such a crucial role. Perhaps in recognition of this, the pair make good use of consultants and advisors, and have delegated significant control to Wafra through the Capital Constellation joint venture.

“With a portfolio of good assets in a rising market the challenge isn’t reaching our target allocation,” Moseley tells *PEI*.

“The challenge is not overshooting.” ■