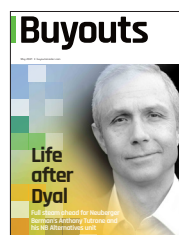


Buyouts

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Cover story

Life after Dyal

*For Anthony Tutrone, the spinoff of NB Alternatives' highest-profile unit is one more chapter in a rapidly evolving market. By **Kirk Falconer***

Anthony Tutrone, Neuberger Berman's global head of alternative investments, has seen a lot of changes in private equity over his career, which has spanned more than three decades.

As the market emerges from the covid-19 lockdown, Tutrone believes what was once a fairly routine way to make strong returns – by riding a strong market – has changed.

For private equity, this means “the free lunch is over,” Tutrone tells *Buyouts*. “You

can't count on multiple expansion.”

“Across all asset classes, your ability to get yield has been highly compressed, and your ability to get returns has followed that,” Tutrone says. “In this zero-rate environment, with assets priced fairly high, there is good reason to be worried about how you're going to meet return objectives in the future.”

Neuberger is adapting to this new reality at a time when it is also preparing for the departure of in-house GP stakes fund Dyal Capital Partners. Going forward, Tutrone says, PE outperformance will be

driven by firms “who can add value to the investments they make and who can nimbly move to areas of value.”

These qualities recognize that there are “still unique opportunities in the market,” yet the most significant factor in returns is “what you're going to do with companies after you buy them.”

Tutrone expects to see “a greater separation” between those general partners who invest in operating and strategic capabilities and those who do not.

For limited partners, this dichotomy will increase the importance of “making



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sure you're identifying the best funds and the best opportunities out there," he says.

A changing PE market does not faze Tutrone, who says it will encourage NB Alternatives to innovate in much the same way it has over the past two decades. "Our assumption is that every business we're in today will not exist 10 years from now, and that if it does exist, it will be completely different."

'Tiny and no detailed plan'

Tutrone, 56, began his PE career in 1986. An MBA graduate of Harvard Business School, the Phoenix-born investor first worked at Lehman Brothers, rising to become an original member of the merchant banking unit. In 1994, he joined Cypress Group as a managing director and founding member.

Tutrone arrived at Neuberger in 2001. NB Alternatives then gave no sign of the multi-strategy private-markets giant it would become. "It was pretty tiny," he says, with a few hundred million in assets, less than five employees and "no detailed plan" for growth.

GP stakes fund Dyal, which is spinning out of NB Alternatives to merge with direct lender Owl Rock Capital, has long been the New York manager's highest-profile unit.

Why this is the case is perplexing. After all, "the rest" of the business – an amalgam of fund investing, co-investing, private debt, secondaries and other strategies – amounts to one of the world's biggest private equity investors.

Consider these facts: NB Alternatives in 2020 secured a record \$13.5 billion in non-Dyal commitments from LPs. It also made more than \$9 billion in non-Dyal investments, which is mostly on par with activity in 2019, the health crisis notwithstanding, Tutrone says.

Of the \$9 billion invested, roughly a third was committed to fund partners, a who's who of general partner teams. Another \$2 billion to \$3 billion went into co-investments. These outlays are similar in heft to those usually made by the largest pension systems and sovereign wealth funds.



The amount
that NB
Alternatives
made in
non-Dyal
investments
in 2020



The LP capital that
NB Alternatives
collected in the first
quarter of 2021



NB Alternatives' non-Dyal LPs
– among them pension plans,
insurers and other institutions

NB Alternatives has been quietly making deployments of this magnitude for years. In 2021, the firm appears poised to match or improve on last year's results. NB Alternatives in the first quarter alone collected more than \$2.1 billion of LP capital and invested more than \$3.7 billion.

NB Alternatives was launched in 2001 with "a vision and a dream" to help LPs "accomplish their unique objectives," Tutrone says. Starting out as a fund of funds business, it became, essentially, a concierge of private-market access for LPs through product innovations – such as customized accounts – some of them pioneered by NB Alternatives.

"We grew along with our clients," Tutrone says. Much of this growth followed Neuberger's 2009 spinout from the bankrupt Lehman Brothers, coinciding with rapidly expanding LP allocations to private equity. NB Alternatives' assets rose 7.5x to \$90 billion, making it the global market's sixth-largest firm, according to Private Equity International's PEI 300.

Even with \$20 billion or so removed with Dyal's departure, NB Alternatives will still reside in that upper echelon. Moreover, Neuberger will hold a substantial piece of Blue Owl Capital, the \$45 billion listed platform which combines Dyal and Owl Rock.

'Doing business with the best'

A large share of NB Alternatives' annual multi-billion-dollar investments are direct in nature. When doing such deals, NB Alternatives gives preference to fund partners, Tutrone says. "Whether it is co-investments, credit or secondaries, we're going to our GPs and saying we know you have a lot of challenges and we have a lot of ways to help you."

For their part, managers want "partners they trust, who are experienced and can demonstrate flexibility," Tutrone says. Citing NB Alternatives' role as lender, he notes "we're going to be a better answer than a credit fund who doesn't invest in

"ESG will be one of most important issues and challenges that LPs will have to face"



their funds, doesn't know who they are, doesn't know what they're about."

Orlando Bravo, managing partner of Thoma Bravo, reinforced this point, calling NB Alternatives "a value-added partner." He tells Buyouts the firm is "very creative and supportive in their direct investments alongside us."

By investing with fund partners, NB Alternatives ensures better returns, Tutrone says. "Doing business with the best private equity firms is the way we're going to deliver great results to our investors."

'A whole spectrum'

Shops like NB Alternatives help LPs make allocations to asset classes, markets and strategies that might otherwise be barred to them. Many requiring cost-effective solutions are institutions with meager in-house resources. Others are investors who are new to private equity.

NB Alternatives' non-Dyal LPs – among them more than 650 pension plans, insurers and other institutions – reflect "a whole spectrum," Tutrone says. They in-

clude “even the most sophisticated, most well-staffed investors” seeking exposure they “don’t want to build out internally.” For some LPs, the answer is commingled or dedicated pools, for others, a custom choice.

Due to the scope of LP demand, NB Alternatives has developed the capacity “to tailor solutions to our clients’ specific needs,” Tutrone says.

In practice, this means operating as “an extended member of our client’s staff,” Tutrone says, providing everything from à la carte services to advice on asset-allocation policies to managing entire portfolios. “We can’t do everything for people, but we can do more than most.”

A menu option of increasing relevance is guidance on topics like ESG and impact investing. Tutrone estimates nine in 10 LP

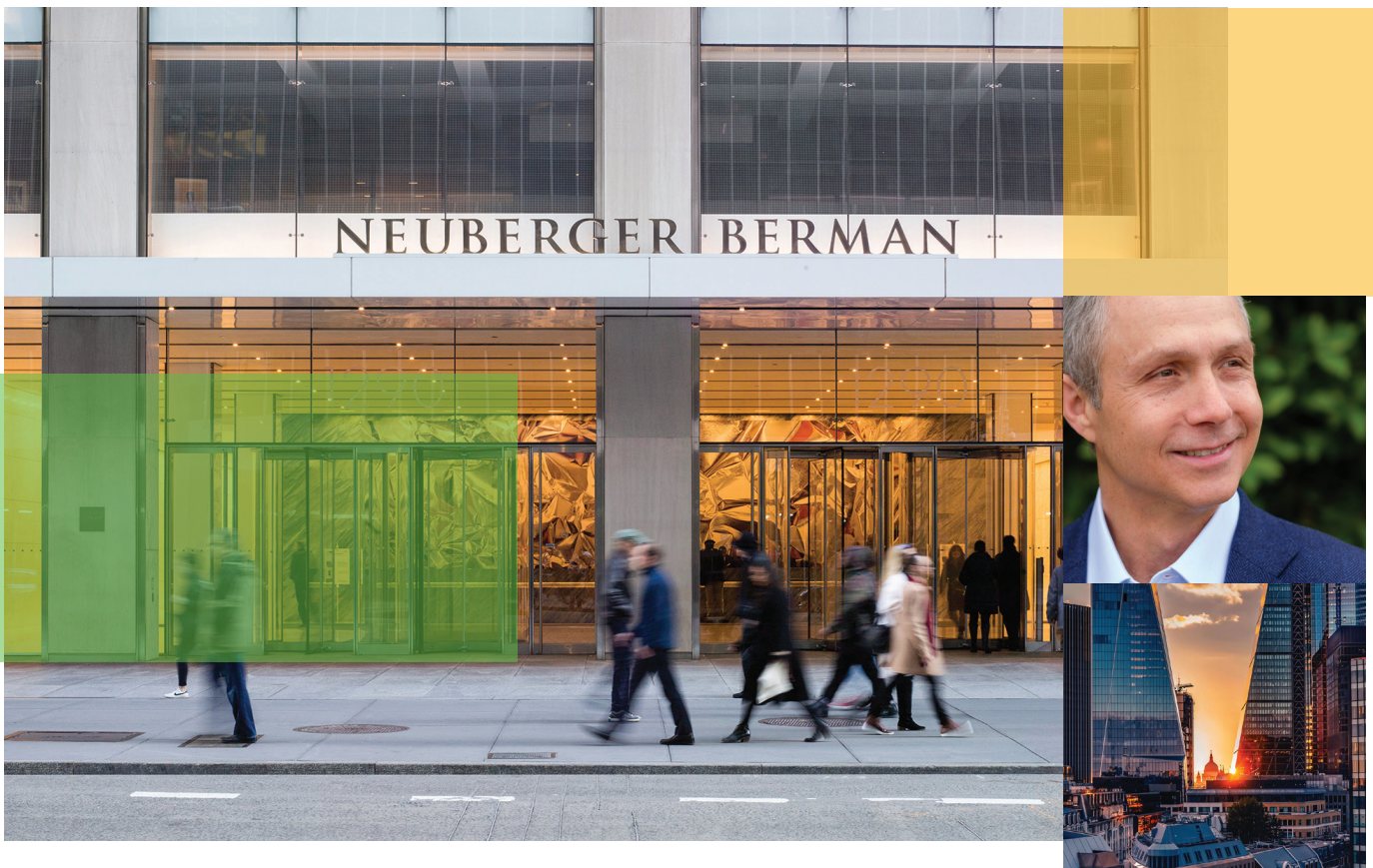
“Our assumption is that every business we’re in today will not exist 10 years from now, and that if it does exist, it will be completely different”

clients bring up ESG concerns. “ESG will be one of most important issues and challenges that LPs will have to face,” he says. Because of this, investors are turning to Neuberger to “provide a roadmap.”

Fastest growing

In dollar terms, the largest fraction of NB Alternatives’ client base is strategic partners – or users of separately managed accounts. It is also by far the fastest growing, Tutrone says.

NB Alternatives was one of the earliest SMA managers and influenced the concept’s evolution. Customized investment programs emerged in the early 2000s, becoming popular with LPs because of their many advantages, such as lower fees, greater transparency and exposure to diverse opportunities. SMAs also lend flexibility to



The direct approach in secondaries

One of the more active secondaries buyers in the market, Neuberger Berman differentiates from other large players by taking a direct investing approach into GP portfolios it knows well, writes Chris Witkowski.

Through its work with the asset manager's primary private equity operation, the secondaries team has deep knowledge through the GP relationships.

"Having the primary relationship with the GPs provides a number of advantages for our investors, both on the sourcing side... but also in terms of underwriting and gaining access to the performance information for the private companies. So that's a little bit of a differentiator approach relative to some of our peers who don't have the same integrated model," says Tristram Perkins, global head of NB secondary private equity.

Neuberger's 20-member team, which is part of the asset manager's roughly 245-member global private equity operation, has focused on GP-led transactions for years. The approach stems from the pedigree of the leadership of the team, which is mostly made up of professionals coming from a direct investing background, Perkins says.

The group traces its history back to Bankers' Trust, where Brian Talbot (chairman of NB secondary private equity) launched a secondaries practice in 1991. The group invested from the balance sheet until Deutsche Bank took over the bank in 1999. Deutsche Bank began exiting its private equity operations around 2004, at which point Talbot, Perkins and Ethan Falkove joined Neuberger Berman. These days, the team is led by Talbot, Perkins, Falkove, Ben Perl, Peter Bock and Philipp Patschkowski.

"We've stuck to what we think has allowed us to deliver returns to investors over a really long period of time through a variety of market cycles. That's taking a more direct approach, trying to identify funds where we see embedded value, trying to create opportunities to buy those funds through our GP... and LP relationships and our relationships in the advisory market. Especially through some of the volatility we've seen recently, that approach is paying dividends for our investors," Perkins says.

Many of Neuberger's competitors focused on raising capital to buy large, diversified pools of assets. Neuberger's strategy, instead, has been "nuanced... and that's one of the reasons we've been excited by the GP-led opportunity as it's sort of exactly what we've always been doing for 20 years. When we look at that and see that's the fastest growing segment of the secondary market, that's really exciting to us," says Perl, managing director on the secondaries team.

The firm led two recent high-profile deals: first, it was lead investor on a GP-led fund restructuring on Riverside Partners V, a 2012 vintage pool. Nearly half the LPs in the fund opted to roll their stakes into a continuation vehicle created to house remaining assets, which was about \$532 million in size, affiliate title Secondaries Investor wrote in March.

Second, in April, Neuberger emerged as lead investor on a single-asset process for BC Partners-backed Springer Nature.

the allocation process.

Today, the firm manages about \$30 billion of SMA assets for 73 LPs, 15x the amount in 2009. This owes mostly to re-ups by long-standing institutional clients. NB Alternatives' history with SMAs allows it to handle increasing levels of customization, Tutrone says. This is typically the result of new and emerging private-market opportunities and more extensive LP reporting requirements on issues like ESG.

Along with institutions, NB Alternatives focuses on smaller LPs like families and high-net-worth individuals. As these investors are "under-served," Tutrone says, they represent a "huge growth area."

In January, NB Crossroads Private Markets Access Fund was unveiled to target 'Main Street' retail investors. The vehicle, which began with \$208 million of initial capital, is intended to add to the more than \$12 billion already raised on the retail side.

How NB Alternatives invests Primaries

The platform of NB Alternatives is made up of five post-Dyal strategies. The largest, primaries (\$25 billion), features fund investments diversified by focus – mainly buyout, growth equity, special situations and venture capital funds active across markets in North America, Europe and Asia. The strategy is important to LPs, Tutrone says, because "access to the best funds is still a very big challenge."

NB Alternatives partners with more than 530 funds, sponsored by established managers as well as a selection of first-timers. Some of the major GP names are BC Partners, Carlyle, EQT, KKR, Francisco Partners, Platinum Equity, Silver Lake, Thoma Bravo and Thomas H Lee.

Co-investment

The second largest strategy is co-investments (\$20 billion). Neuberger in the early 2000s anticipated LP interest in direct in-

vesting, a trend that has since intensified. A survey by Private Equity International found 71 percent of LPs this year aim to participate in deals alongside managers to achieve fee savings and other benefits.

NB Strategic Co-Investment Partners IV closed in January on \$2.1 billion. The vehicle will vet hundreds of sponsor-backed buyout and growth-equity prospects annually, usually doing about 10 percent, Tutrone says. Up to \$100 million will be invested per deal on average, with larger stakes acquired using other pools.

A key differentiator of the strategy is an emphasis on co-underwriting deals early in the process. In addition, priority is given to “mid-life” opportunities – where the target is a portfolio company already owned by a lead sponsor. These two categories account for 75 percent of recent co-investing.

Over time, some 340 businesses have sold a minority equity stake to NB Alternatives.

One example is IT services provider Engineering Group, acquired last year by Bain Capital from Apax Partners. Another is flexible packaging maker ProAmpac, which in January received a new investment from its five-year owner Pritzker Private Capital, GIC and others.

Secondaries

NB Alternatives is an active secondaries player, giving it a profile that often rivals that of Dyal. Under the strategy (\$12 billion), the firm has shown a particular appetite for GP-led transactions – which gained traction in pandemic-roiled 2020 as private equity sponsors looked for options to extend investment runways, raise money for portfolios or create liquidity for LPs.

NB Alternatives’ deals include last year’s single-asset process that moved Thomas H Lee-backed wealth manager HighTower Advisors into a continuation pool. The firm, Collier Capital and Goldman Sachs were the lead investors. Earlier in 2021, NB Alternatives also invested in a \$500 million

“We’re going to our GPs and saying we know you have a lot of challenges and we have a lot of ways to help you”

Riverside-led process centered on a portfolio of healthcare and tech assets.

Private debt

A fourth strategy (\$6 billion) is direct private debt, consisting mostly of senior secured loans and opportunistic credit earmarked for US mid-market companies owned by PE firms. Investments, averaging \$25 million to \$100 million-plus, are made in businesses with EBITDA of \$25 million to \$250 million or more.

NB Alternatives ramped up credit investing over 2020-21, deploying \$1.6 billion in the past six months alone. Among its recent deals is a unitranche financing led in support of Gryphon Investors’ December

\$30bn

The assets in separately managed accounts that the firm manages for 73 LPs

\$7bn

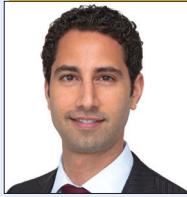
The size of a hodgepodge of direct specialty strategies that NB Alternatives oversees

\$12bn

NB Alternatives’ investment in secondaries (with a particular appetite for GP-led transactions)

NB Alternatives behind the curtain

Some of the players making up one of the world's biggest private equity investors



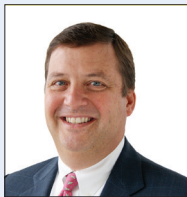
Primaries
Jonathan Shofet
Global head



Co-investments
David Morse
Global co-head



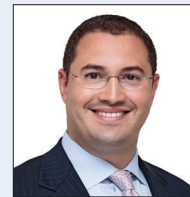
Co-investments
David Stonberg
Global co-head



Secondaries
Brian Talbot
Chairman



Secondaries
Tristram Perkins
Global head



Secondaries
Ben Perl
Managing director



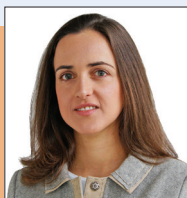
Private debt
Susan Kasser
Global co-head



Private debt
David Lyon
Global co-head



Peter Von Lehe
Head of investment solutions and strategy



Others
Joana Rocha Scaff
Head of Europe, private equity



Others
Patricia Miller Zollar
Head of NorthBound Equity Partners



Others
Kent Chen
Head of Asia

acquisition of Meazure Learning, an exam proctoring solutions provider.

Other strategies

Finally, NB Alternatives oversees a hodgepodge of direct specialty strategies (\$7 billion). These run the gamut, from structured investing in healthcare (Athyrum) to buyouts in Italy's mid-market (NB Renaissance Partners).

One of the strategies, Marquee Brands, a brand acquisition and licensing platform, in 2019 grabbed headlines with its purchase of iconic lifestyle business Martha Stewart for \$175 million.

Relying on Neuberger

NB Alternatives is supported in its work by Neuberger, a \$405 billion asset manager. "It is a massive asset," Tutrone says, whose organizational resources include 24-hour intelligence about a complex global market.

"Across all asset classes, your ability to get yield has been highly compressed, and your ability to get returns has followed that"

"If you don't know what's going on globally, you are operating at a disadvantage."

Employee-owned Neuberger prides itself on talent management. Its nearly 100 percent retention of senior investment professionals in recent years is mirrored at NB Alternatives, Tutrone says, facilitating long-term relationships with LPs. ■

Tutrone leads a team of 245 PE investment professionals operating from New York, Dallas, London and other global offices. Top executives include Jonathan Shofet, head of primaries; David Morse and David Stonberg, co-heads of co-investments; Brian Talbot, chairman, and Tristram Perkins, head of secondaries; Susan Kasser and David Lyon, co-heads of private credit; Joana Rocha Scaff, head of Europe, private equity; Patricia Miller Zollar, head of emerging managers; Peter Von Lehe, head of investment solutions and strategy, and Kent Chen, head of Asia, private equity. ■

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