

Buyouts

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LPS

Rocky fundraising may help 'normalize' private equity model: IMCO's Ferguson

IMCO disbursed more than C\$2.5bn (\$1.9bn) to fund and direct investments last year, up 9% from 2021, Craig Ferguson, managing director, private equity, told Buyouts.

Investment Management Corp of Ontario expanded private equity investing in 2022, as many of its LP peers grappled with cash constraints.

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This growth contrasts sharply with the experience of other North American institutions, many of which ran out of money because of overallocation to the asset class. LPs were also cash-poor because of weaker exit markets that dried-up distribution flows.

"We were fortunate as we had liquidity and no cash constraints," Ferguson said. "We stayed in the market when others were pruning and kept deployments stable even though others were pulling back."

Funds + directs

Of the total invested, C\$2 billion-plus went to nine fund partners. They include incumbents like EagleTree Capital, which is seeking \$1.6 billion for Fund VI, Kohlberg & Co, which is seeking \$5 billion for Fund X, and Sumeru Equity Partners, which last year closed a fourth fund at \$1.3 billion.

In addition, IMCO committed to the latest flagship offerings of Nordic Capital, Peloton Capital Management and TorQuest Partners.

Three new relationships were forged



Craig Ferguson, Investment Management Corp of Ontario

in 2022, among them Brookfield Asset Management, which is raising \$12.5 billion for Fund VI, and Stone Point Capital, which closed Fund IX at \$9.1 billion. IMCO also committed to the \$1 billion impact offering of Apax Partners.

On the directs side, IMCO put more than C\$500 million to work in 12 deals, marking its most active year to date. Examples are cybersecurity platform Barracuda Networks, acquired with KKR, reportedly for \$4 billion, and automotive tech company CDK, acquired with Brookfield for \$8.3 billion.

Further, IMCO backed the 123Dentist-Altima Dental merger alongside KKR and Peloton; Stone Point's investment in Beeline; Morgan Stanley Capital Partners'

investment in Emler Swim School; and Kohlberg's recap of Trinity Life Sciences.

"In 2022, we made ourselves more flexible to our partners," Ferguson said, by investing smaller amounts in more deals. "In some markets you can get the chunky checks done, in some you can't."

Back to normal

IMCO was founded in 2016 to pool and invest Ontario public sector fund assets, taking as a model organizations like Caisse de dépôt et placement du Québec. Ferguson joined in 2020 from Manulife Capital to ramp up the PE strategy, with the aim of hitting C\$6 billion or greater of assets by 2025.

Thanks in part to vigorous investing that target was increased last year to C\$10 billion by 2027. Another factor was the 2022 sale alongside TorQuest of cold supply-chain provider Versacold, from which IMCO earned a 3x multiple and 100 percent IRR.

Having plentiful capital to invest has made IMCO popular among GPs stymied by overallocated LPs, Ferguson said. "The inbounders are absolutely overwhelming."

Ferguson expects fundraising challenges to persist or even intensify this year owing to a continuing demand-supply imbalance. "It could get worse because it takes some time for these things to unwind," he said. "You'll perhaps see the green shoots in 2024."

Rocky market conditions are not

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entirely a bad thing, he said, as they might help address some systemic issues of importance to LPs, such as a recent pattern of accelerated fundraising by GPs. “It will cause a little bit more normalization in the private equity model.”

Strategy evolution

IMCO’s PE strategy takes a hybrid approach to investing. Focused on the buyout segment in North America and Europe, it leverages fund partners to make direct and co-investments. Opportunities are sourced in sectors like industrials,

services, consumer, tech, media and telecom, healthcare and financial services.

Ferguson’s in-house PE group has been building the strategy to achieve a broad 60:40 ratio of fund and direct investments. At present, directs account for just over 40 percent of portfolio assets.

Going forward, Ferguson will organize the group around three key sectors: business services, healthcare and mature tech. In so doing, his team will be “more enabled by sectors and their associated subsectors,” he said, and better able to “optimize relationships with deal partners.”

IMCO will also pursue more opportunities of thematic interest, such as ESG and impact opportunities. Following the commitment to Apax’s impact vehicle, these remain “on our radar,” Ferguson said.

At the end of December, IMCO had PE portfolio assets totaling C\$5.9 billion or roughly 7 percent of all assets. They are managed by a dozen Toronto-based professionals, including 2022 hires like senior principal Kent Kirkpatrick, formerly an executive with Alberta Investment Management Corp. ■