

Advent on top with €6.6bn new fund

APRIL 6, 2008 by: Martin Arnold in London

Advent International is due on Monday to cement its position as the world's biggest mid-market private equity firm with the news it has raised a new €6.6bn (\$10.3bn) fund.

The amount suggests investors are looking to put more money with private equity firms that are more likely to do deals soon. The “mega buy-out” firms are hampered by the crisis in debt markets, while mid-sized buy-outs are less reliant on plentiful supplies of cheap credit.

Boston-based Advent, which has offices in 15 countries and targets companies worth \$200m to \$1bn, raised its “hard cap” fundraising limit by 10 per cent to account for high investor demand. But it was still oversubscribed and turned away about \$5bn, it said.

Bruce Barclay, Advent managing director, said: “You take a view on whether the jumbo deals of \$5bn-plus are going to come back in the next investment cycle, say the next three years, and if not you are safer putting money in the mid-market.

“We are seeing better opportunities than we have for years.”

The size and speed of Advent's fundraising – it issued its prospectus only in late November and had a first close on March 12 – underlines how eager investors were to gain access to the GPE VI fund, which is more than double the size of its previous €2.5bn fund.

The biggest investors in its new fund include Canada Pension Plan Investment Board, GIC Special Investments, AlpInvest Partners, Pantheon, California State Teachers' Retirement System and Universities Superannuation Scheme.

Founded in 1984, the firm has been a top performer, generating annual returns of 53 per cent from its 2002 fund and 136 per cent from its 2005 fund, according to Calpers. It also has a \$1.3bn Latin American fund and a €300m east European fund.

Its fundraising benefited from a strategic adjustment by some of the biggest investors in private equity to shift their allocation from the “mega buy-out” specialists to firms investing in emerging markets, mid-market deals and distressed assets.

Advent claims to generate more from earnings growth at the companies it buys than the multiplying effect of leverage or rising markets. It says 81 per cent of its returns have come from earnings improvements.

Its purchase three years ago of a 48 per cent stake in Lululemon, a Canadian yoga and fitness clothing brand, which floated last year on the Nasdaq, returned eight times its investment without using debt.

Other investments include last year’s purchase of Domestic & General, the UK provider of extended warranty cover for domestic appliances, and the buy-out of HG Starck, the German maker of refractory metals and ceramics, in 2006.

With offices in central and eastern Europe and South America, as well as the US and western Europe, Advent is well-placed to participate in the rapid growth of emerging market private equity deals.

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