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6 Emerging Managers Find A Way To Succeed

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Inside: Time To Hire A Capital Markets Expert?

COVER STORY

By Bernard Vaughan

Times may be tough, but institutional investors continue to search for new firms to replenish their alternative asset investment portfolios. U.S.-based emerging managers—loosely defined as buyout, distressed and growth equity firms raising their first or second fund—raised approximately $7 billion in the first half of 2010, or more than a quarter (25.5 percent) of the $27.4 billion raised by all buyout shops. Last year, emerging managers raised $10.7 billion, or 17 percent of the $61.3 billion raised in all of 2009, according to Thomson Reuters data. Following are profiles of six firms, listed from youngest to oldest, considered to be among the best of the next generation, based on interviews with limited partners and placement agents.

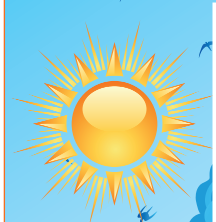
Harren Equity Partners, Charlottesville, Va.

Even teams with a track record at respected buyout shops can have a difficult time fundraising. **Thomas Carver** admitted that he was naïve in thinking **Harren Equity Partners** would garner institutional support simply because he had helped spearhead successful deals for **H.I.G. Capital**, the global firm that manages $8.5 billion across several funds. But not one institutional investor backed Harren Equity's premier effort, a $35 million fund closed in 2000 that targeted investments across a variety of industries, including energy services, aerospace and defense, automotive, and business services.

It took a stellar performance with that humble fund for Harren Equity to prove itself: The fund, which is fully realized, has generated more than 4x investors' capital on a gross basis. "We were able to generate similar returns to those generated while at H.I.G. but on our own platform," Carver said.

As a result, the Charlottesville, Va.-based shop was able to raise $200 million for Fund II in 2007 from notable funds of funds managers such as **Grove Street Advisors** and **RCP Advisors**, as well as international LPs, including **Danske Private Equity**, the investment arm of Copenhagen-based Danske Bank.

Limited partners also liked the fact that executives fund about 10 percent of their funds with their own money, and are able to sniff out deals in markets ignored by typical New York-based firms. For example, Virginia Drilling Co., a drilling company Harren Equity bought with its first fund that serves the mining industry, is based in Vansant, Va., a town with a population of 989 based on the 2000 Census. Carver and Partner **Lee Monahan** are more apt to attend management meetings in jeans and a golf shirt than in a pin-stripe suit. "They tend to have more of a 'roll up your sleeves' approach and less of a Wall Street-financial approach," said **Frank Angella**, general partner at Grove Street.



Founded: 1999

Strategy: Mid-market buyouts with an operational focus. Typically invests in companies with $20 million to $150 million in revenue in energy services, aerospace and defense, automotive, business services, and building products and services, among other industries.

Top Executives: Founder Thomas Carver, a former partner at H.I.G. Capital; Partner Lee Monahan was an associate at H.I.G. Capital. The firm has 11 investment professionals.

Fundraising History: Currently investing from a $200 million Fund II. Raised $35 million for first fund in 2000.

Buzz: Virginia shop with blue-collar ethos takes operational approach to companies found in obscure locations; first fund generates 4x invested capital.