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DACH Fundraising Report
2020 edition

Contents

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Market overview

Paul Tilt
Head of fund research

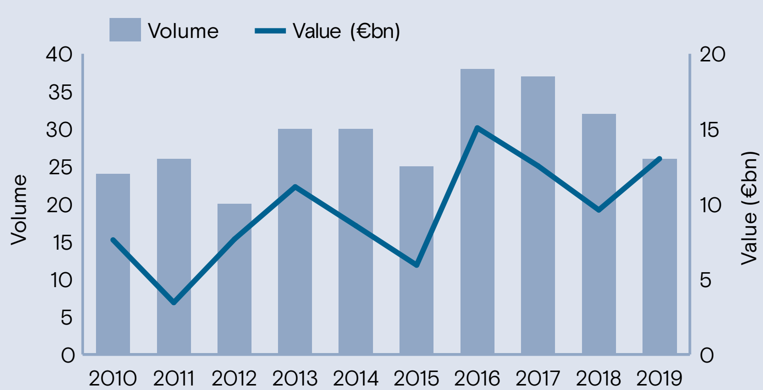
DACH private equity fundraising was in rude health in 2019, with 26 funds securing a combined €13bn across all strategies for the region. This headline figure is the second highest recorded by *Unquote* and continues the trend of a strong fundraising environment evident since 2016.

Buyout funds raised €7.67bn across 10 managers, and, despite the figures being skewed by Triton V's €5bn raise, managers including Paragon, Borromin (formerly Steadfast Capital) and Ufenau all registered impressive final closes that were 90%, 132% and 147% larger than their respective prior vintage funds. Says Afinum managing partner Gernot Eisinger: "If you have a solid track record, making 2.0-2.5x of your investor's money over the last 10, 15 years, and a stable team with succession [plan] in place, fundraising in DACH should not be a big problem."

Unfortunately for LPs, despite the uptick in fundraising in the region, the number of domestic GPs has remained static. There have been an average of nine buyout fund closes per year since 2010, compared with 25 per year in the UK.

"The challenge around supply and demand has not gone away," says Ali Floyd, vice-president at Campbell Lutyens. "People find the idea of getting access to the Mittelstand and the underlying strength of the German economy very attractive, but it is still relatively under-penetrated by PE and the chances of getting that exposure are quite limited."

Final closes of DACH PE funds



Source: *Unquote Data*

Improving PE's perception

The perception of PE sponsors in Germany is gradually improving, with access to deals opening up as a result, according to market participants active in the region

Jürgen Breuer, head of DACH at Pemberton, has noticed an improvement in PE's reputation: "The way private equity has been discussed in the last five years is less emotional and more concentrated around facts and positive developments in PE-owned companies, which have driven a raft of deals."

Unquote's *Annual Buyout Review* appears to support this statement, with the region registering an overall buyout value of €51.2bn across 181 deals in 2019, exceeding every year since records began. In addition, the sourcing of deals from family and private vendors – typically those most distrustful of PE – reached 82, up from 70 in 2018 and just 59 in 2017. In addition, the region is home to some large turnaround strategies, more densely than elsewhere in Europe, allowing successful turnaround examples to be publicised.

Despite this optimism, Campbell Lutyens' Floyd sounds a more cautious note: "There hasn't been a significant change this year compared to last – it is gradually changing. The market is becoming more receptive, but there has not been

The DACH region recorded its second highest year of fundraising in 2019, and with private debt funds in abundance, the industry's largest concern is the public's perception of the asset class

a huge watershed moment where the market has unlocked," he says, adding that issues that have been there for a long time continue to exist and are a challenge. "Long-term family-owned businesses with a resistance to external financing remain a feature of the market. We see successful groups where there is a real demonstration of long-term horizons and capital."

Rise of private debt

One area that has successfully penetrated the DACH region is the surge in direct lending funds, with *Unquote* sister publication *Debtwire* revealing that these funds are now on a near-equal footing with banks in the mid-market space. Although the pan-European managers dominate the list of most active direct lenders in the region, domestic private debt managers – especially those in the lower-mid-market space – are gaining traction.

HF Private Debt held a €110m first close in 2018 and is fast approaching full deployment of that initial capital and aiming for a €150m final close in 2020. Swiss investment specialist Vicenda is approaching a May 2020 final close for Daneo Private Debt Fund I, which has currently raised €92m and is seeking up to €200m to invest in smaller DACH companies. And Patrimonium is busy raising capital for three funds; two mid-market strategies and a tie-up with Credit Suisse.

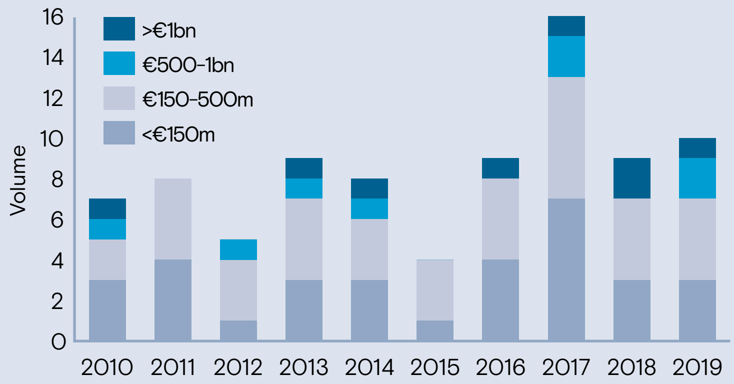
One private equity manager said that while the local banks and co-operatives were traditionally the mainstay, his last three deals were all supported by debt funds. He cited ease of execution, bank retrenchment and a few larger managers moving down to the smaller end of the market in search of deals as some of the reasons. Another manager said that where banks have

2019 final closes

FUND NAME	AMOUNT RAISED AT FINAL CLOSE (€m)
The Triton Fund V	5,000
Partners Group Global Value 2017	1,500
Crown Co-investment Opportunities II	1,236
Paragon Fund III	780
Schroder Adveq Europe VII	661
Ufenau VI German Asset Light	560
Medixci III	400
Invision VI	375
Equita V	308
Steadfast Capital Fund IV	297
Wellington Partners Life Science Fund V	210
Robert Bosch Venture Capital Fund IV	200
PG Impact Investments I	183
Acton Fund V	181
Project A Ventures III	180
Cherry Ventures III	175
E.Ventures Europe VI	154
BID Equity Fund II	125
BY Capital 2	111
Redalpine Capital IV	100
b-to-v Industrial Technologies Fund	100
Wingman Ventures Fund I	55
Capital300	44
KKA Seed Fund	43
Lenbach Equity Opportunities II	40
Halder VI	n/d
Grand Total	**13,017**

Source: *Unquote Data*

Final closes of DACH PE funds



Source: *Unquote Data*

shied away from certain industries such as retail and consumer goods, debt funds have stepped in with bespoke solutions.

Market bifurcation

Despite managers across Europe increasing their fund sizes with apparent ease, DACH managers have tended to remain disciplined. Analysis of buyout funds raised since 2010 shows that 80% have been less than €500m in size, a figure generally considered the sweet spot for targeting the SMEs of the German Mittelstand. Some funds are starting to get bigger, though, possibly driven by the larger equity cheques required for inflated entry multiples and increased competition. DACH managers have continued to target mid-cap deals where there is less competition from their larger pan-European peers, less competitive auction processes and typically less frothy prices paid.

A perusal of pan-European private equity activity in DACH reveals a large uptick in office openings, funds raised and deal activity in the region by European managers. This is particularly evident among Nordic GPs – Altor Equity announced the opening of a Swiss office last year and FSN Capital launched in Munich. Behemoths such as KKR, although present in the region since 1999, accelerated investment activity in 2019 and were involved in three of the region's top deals, topped by the €3bn stake purchase of German media group Axel Springer.

2020 outlook

The 2020 fundraising outlook according to *Unquote Data* is positive, with 76 DACH funds in the market seeking €16bn, and a further 18 in pre-marketing. Notable raises include Deutsche Beteiligungs AG nearing its €1.1bn target and having already secured €1bn from LPs; Capiton setting a hard-cap of €625m for Capiton VI; and Quadriga launching its

DACH fund size growth

GP	Prior vintage size (€m)	Most recent (€m)	Value change
Bregal Unternehmerkapital	550	1,300	136%
Capvis Equity	720	1,200	67%
Deutsche Beteiligungs AG	700	1,000	43%
Paragon Partners	412	783	90%
Ufenau Capital Partners	227	560	147%
Invision Private Equity	285	375	32%
German Equity Partners	230	325	41%
Borromin (formerly Steadfast Capital)	128	297	132%
CGS Management	184	220	20%

Source: *Unquote Data*

fifth vehicle in August 2019 – the fund is registered as a Jersey LP and targets €500m.

Consensus among those industry participants that were consulted for this article is that fundraising in 2020 will be similar to 2019. Drivers of this sentiment include DACH LPs playing catch-up for PE exposure versus their UK and US peers, while international investors continue to find northern Europe attractive when looking for broader European exposure.

Despite this optimism, DACH-focused managers will have to continue to compete with larger managers for LP time. Heavy hitters are coming back to market quicker, and with larger vehicles each vintage, and now four managers raising a combined €50bn is no longer an aberration. Some LPs are happy backing these managers for their DACH exposure at the expense of regional players, so local managers will have to continue highlighting their areas of differentiation.

Select DACH funds raising in 2020

Fund name	Fund manager	Fund type	Fund target (€m)	Fund Status
DBAG Fund VIII	Deutsche Beteiligungs AG	Buyout	1100	First Close
Rocket Internet Capital Partners II	Rocket Internet	Venture	1000	Second close
DPE Deutschland IV	Deutsche Private Equity	Buyout	800	Pre launch
Unigestion Direct II	Unigestion Capital Partners	Buyout	600	First Close
Capiton VI	Capiton	Buyout	550	Announced
Lakestar Growth I	Lakestar	Growth	550	First Close
Quadriga Capital Private Equity Fund V	Quadriga Capital Eigenkapitalberatung	Buyout	500	Announced
Emeram II	Emeram Capital Partners	Buyout	400	Announced
Auctus V	Auctus Capital Partners	Buyout	250	Announced
Lakestar III	Lakestar	Venture	250	First Close
Seafort Advisors Fund III	Seafort Advisors	Buyout	250	Announced
Patrimonium Private Equity Fund	Patrimonium	Buyout	200	Announced
KKA Fund II	KKA Partners	Buyout	200	Announced
Marondo Small-Cap Growth Fund	Marondo Capital	Growth	175	First Close
Swisscanto PE Switzerland Growth I	Swisscanto	Growth	150	First Close
SHS V Fonds	SHS Gesellschaft für Beteiligungsmanagement	Growth	150	First Close
BPE 4	BPE Unternehmensbeteiligungen	Buyout	135	First Close
Premium Mittelstandsfonds II	Premium Equity Partners	Buyout	125	Announced
MPEP III	Munich Private Equity Partners	Fund-of-Funds	100	First Close
Beyond Capital Partners Fund II	Beyond Capital Partners	Buyout	100	Announced
Cross III LP	Cross Equity Partners	Buyout	100	Registered
Heal Capital	Heal Capital	Venture	100	First Close
Finatem V	Finatem Beteiligungsgesellschaft	Buyout		Registered
Elvaston IV	Elvaston Capital	Buyout		Announced

Source: *Unquote Data*

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In Profile: HQ Capital

Sofia Karadima
LP researcher and writer

Founded 30 years ago, Frankfurt-headquartered HQ Capital is a global firm with offices in South Korea, Japan, China, the US and the UK. The organisation raises funds-of-funds, and also manages separate accounts on behalf of its clients.

HQ seeks to source global private equity opportunities, but ensures that it allocates 20% of its European portfolio to Germany, typically through commitments to German GPs, but also to other pan-European managers that invest in the DACH region.

"We have a very special situation that we find in Germany," says HQ managing director Britta Lindhorst. "The market is bifurcated, the large transactions are done by pan-European and global managers, while the German managers are the leading power in the mid-cap deals."

Explaining that this happens because pure German managers with funds over $1bn are very rare, Lindhorst highlights that German managers still have an advantage, as mid-market companies, family offices and founder-owned companies are keen to talk to local managers, rather than firms from abroad.

"We want to build a programme with managers that have a very clear and precise strategy of ESG and sustainability"
Britta Lindhorst, HQ Capital

"Pure mid-market German GPs have the possibility and opportunity to stay away from the heavily auctioned transactions and opt for one-to-one and proprietary situations with family-owned businesses," says Lindhorst. "However, the disadvantage is that it takes much longer to convince a family or an owner to sell a business that they have owned for decades, and this is why we see the investment pace of some German GPs being relatively slow."

The German market is export orientated, which makes it extremely cyclical with regards to certain industries such as the automotive sector, according to Lindhorst. As a result, she says that some international investors may be cautious about investing in Germany in 2020, but HQ has a long-term view when investing, and this can be a competitive advantage for investors who understand the market and invest for the long term.

German asset manager HQ Capital is set to invest up to $600m in private equity in 2020. Sofia Karadima catches up with Britta Lindhorst, managing director and head of European investments, about the investment climate and the organisation's plans for 2020

HQ has invested in 530 private equity funds across 266 managers since 1989. Since 1992, it has completed 192 secondary transactions representing $2.3bn in committed capital (as of Q3 2019). The private equity portfolio consists of 60% primaries, 30% secondary investments, and 10% co-investments.

Second thoughts

As part of its fund-of-funds, HQ invests in secondaries, especially in the early phase of the investment period to mitigate the J-curve. It tends to invest with GPs on the smaller side of the market, buying smaller pieces and avoiding the big auctions run by secondaries intermediaries.

The geographic split of its PE portfolio is 50% North America, 30% western Europe, with the remainder invested in Asia, among other areas. The organisation has recently appointed Motoya Kitamura from the secondary investment manager AB Value Capital Partners to serve as managing director, based in Hong Kong and Tokyo.

The organisation has $7.3bn in private equity assets under management and is planning to commit $500-600m to private equity over 2020. Lindhorst is planning to back some of the new funds that its existing managers, including its German GPs, are planning to launch in 2020.

Moreover, when looking for a new manager, HQ is searching for a good track record and consistent investment strategy. It also looks for co-investment opportunities, but this is not a must-have. The organisation is also looking for managers that embrace environmental, social and governance (ESG) criteria.

As for the fundraising environment in the other DACH countries, Lindhorst says Austria does not play a real role anymore, and also Switzerland is a relatively small market. However, Lindhorst adds that some larger Swiss GPs have started to roll out their strategies into Germany and northern Italy, such as Capvis Equity Partners.

When investing in funds, HQ Capital tends to allocate $20m on average, but may also make significantly higher commitments.

HQ, a signatory of the United Nations' principles for responsible investing (PRI), has integrated an ESG and sustainable policy in its investment process since 2013. It is also looking to build a dedicated sustainability programme. Says Lindhorst: "We want to build a programme with managers that have a very clear and precise strategy of ESG and sustainability for their organisations and portfolio companies. We want to find managers with which we can also help make an impact on the companies." ■

Key team members

Britta Lindhorst is managing director and head of European investments at HQ Capital. She has previously worked for Generali and Sal Oppenheim.

Dr. Bernd Türk is chief executive officer. He has previously worked for Harald Quandt Holding and Commerzbank.

Stephen Wesson is managing director and head of global private equity. He has previously worked for Donaldson, as well as Lufkin & Jenrette.

David Pierce is managing director and head of Asia. His previous experience includes Flag Squadron Asia, Squadron Capital and Search Investment Group.

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Fund administration in DACH

Why are fund managers outsourcing the administration of their funds?
Fund operations are becoming increasingly complex in nature. Day-to-day administration, accounting, controls, policies and procedures are all being influenced by continual regulatory changes and technological innovation, leaving managers trying to balance their time between operations and their clients' investments. A specialist administrator helps to swing this balance in favour of the clients' investments.

Outsourcing to an administrator provides a manager with a ready-made operating platform, albeit one that a good administrator will tailor to the manager's needs. This platform will include controls, systems and procedures that have been streamlined to provide efficiency and peace of mind. Building an effective and compliant operating platform from scratch can be very costly and a considerable drain on a manager's resources; an administrator can also deliver a cost-effective solution whereby those costs are absorbed and spread across all clients.

Finally, it's all about people. Specialist administrators make considerable investments in the training and development of their teams, ensuring that best practice is consistently applied, and operational tasks are undertaken by people with relevant and up-to-date expertise.

> "Hands-on experience goes hand-in-hand with technical expertise. A highly skilled administration team will be able to draw upon years of experience"
> *Hana Prochaska, Aztec Group*

Can you give some examples of that expertise?
It starts with the front line. Daily fund operations and effective communication with managers require administrators with an intimate knowledge of those funds, and of the manager's priorities, goals and concerns. The administration team will ensure that operations such as capital calls, distributions, investor reports and ad hoc management reports are all scheduled promptly and take place seamlessly.

Working alongside the administrators are experienced accountants with a deep understanding of fund and investor reporting requirements, essential for transparency and investor confidence.

For German managers, it's vital that the fund administrator understands and delivers on the requirements for regular Bundesbank and BaFin reporting, for example.

In addition, a good administrator will place compliance and AML professionals within their operational teams, ensuring that regulatory obligations are met. Experts in legal, risk, information

Hana Prochaska, associate director at Aztec Group, spoke to *Unquote* about the processes and benefits of outsourced fund administration, and what DACH-based managers should look for when structuring across jurisdictions

security, financial systems and IT infrastructure also support the administration team and underpin the daily operations of a manager's fund.

Importantly, hands-on experience goes hand-in-hand with technical expertise. A highly skilled administration team will be able to draw upon years of experience across funds of all sizes and at all stages of the investment cycle. This experience provides managers with a valuable source of practical advice and knowledge.

How are outsourcing providers responding to disruption and change?

First and foremost, change should be approached with a positive outlook. Disruption can lead to threats, but for administrators that are adaptable and optimistic about the future, it can undoubtedly lead to opportunities.

Take technology, for instance. In recent years there has been a significant evolution in investor relations, board room governance and broader fund operations, all facilitated by digital portals. These portals offer intuitive and user-friendly access to a world of reporting and communications previously clogged down by paper, emails and attachments. Forward-thinking administrators have adopted these solutions to improve the efficiency of fund reporting, streamline investor and board communications, and increase productivity. The right information reaches the right people, at a time convenient for them, and in a highly secure manner.

When we consider regulation and compliance, pragmatism is usually the best approach. Administrators should be examining regulatory change in the context of individual client needs as well as the broader landscape in which they operate. Economic substance is one clear example: administrators on the front foot have been able to consider the implications for all clients and adapt their approach to each accordingly. The result is an efficient, joined-up process that provides tailored benefits to all.

Often, the best immediate reaction an administrator can take is to simply pick up the telephone and speak to clients about their thoughts and concerns. Operations may be impacted by digital technology and regulation, but the human touch still exists.

As fund operations become more global, what should a multi-jurisdictional manager look out for when considering an outsourced partner?

A presence in key locations is vital. Not only does this show that the administrator is able to provide operational support to managers with varying needs, it's also proof that the administrator thinks ahead and has planned the expansion of their geographic footprint around the evolution of the market.

It's no longer enough to have a strong team in one office and another strong team in another office; teams in different locations must operate and communicate with their clients in a consistent, joined-up manner. It's important for an administrator to offer its employees the opportunity to learn and share knowledge across jurisdictions, ultimately benefiting those managers who domicile their funds in more than one location.

Finally, cultural and lingual understanding is crucial: for administrators based in key service centres such as Luxembourg and The Netherlands, for instance, it's important that their teams can communicate with German managers in their language when required, and that they understand the cultural environment in which they operate. ■

Venture fundraising remains solid in DACH

Harriet Matthews
Reporter

More than €1.95bn was raised in the DACH region in 2019 across 13 venture capital vehicles; remarkably close to 2018's €1.94bn across 12 vehicles. On the investment side, 2019 was a highlight year for the region: 365 deals were done, compared with 277 in 2018, and the aggregate volume was €8.35bn, compared with €4.7bn the previous year.

Alex von Frankenberg of High-Tech Gründerfonds (HTGF) notes the diversity of sources of capital available for VC funds in the region: "In general, I think the fundraising environment is very positive; there is a lot of money in the market looking for investment and it is trickling down into VC assets. More specifically, the money is coming from different sources. There is a lot of public money available in Germany. And on a European level, the European Investment Bank and the European Investment Fund are significantly investing in funds. In fundraising now, you can come with a cornerstone commitment for a public investor, which makes it much easier to raise public money."

Peter Möllmann of Schnittker Möllmann Partners highlights the impact that the expansion of the investor base has had on the investment side: "If you look back three to five years ago, if you wanted to raise an expansion round or late-stage financing round, you would inevitably look to funds in London or the US. That has really changed in the last two to three years. Funds considered early-stage one vintage ago, like Project A, are now moving into a new phase of expansion and growth financing. The facilities that have been raised are getting bigger and bigger – there is much more supply on the investment side. There are a large number of very potent financing parties in the market now."

> "The fundraising environment is very positive; there is a lot of money in the market looking for investment and it is trickling down into VC assets"
>
> *Alex von Frankenberg, High-Tech Gründerfonds*

Big-ticket venture

A key development in 2019 has been the increasing incidence of high-value venture rounds. There were 15 "mega-rounds" of more than €100m raised in the DACH region in 2019, compared with seven such rounds in 2018 and six in 2017, according to *Unquote Data*. Says HTGF's von Frankenberg: "10 years ago, €10m was viewed as a large round. It is a very positive development – one deficiency of the European and German startup system used to be that there were no large rounds, so European companies were limited in how they could grow compared with US and China-based startups, which could raise large rounds. The gap is closing a little bit, but the challenge if there is a large round is that the companies have a higher valuation and their performance needs to catch up."

Some of 2019's high-value rounds were bolstered by the involvement of corporate investors or

Venture fundraising remained stable in the DACH region in 2019, while investments saw their highest ever aggregate value. Harriet Matthews reports on the developments in the fundraising market and their impact on venture deals

corporate venture funds. Says von Frankenberg: "We still see new corporate venture funds popping up and there is corporate investment in venture funds, too. The corporates understand that they need to be involved in startups for their own corporate innovation. I would not say it's booming, but it's significant and positive."

Möllmann considers the role of corporate VC funds to be fairly low-level, but highlights another source of capital in the market: "A couple of years ago, I would have expected more involvement from corporate VC funds, but that has not happened – corporate VC is at a fairly low level in Germany. The rate of growth of the funds themselves has been higher than I would have expected. The money supply side has changed: you also now have PE funds setting up facilities specifically for these investments: EQT, Triton and Digital Plus, for example."

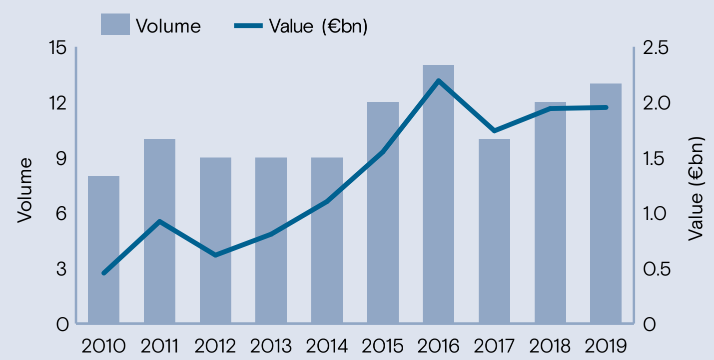
Master of one

Andreas Goeldi of BtoV Partners notes that fund specialisation was also a trend seen in 2019: "Even in Germany, we are seeing a lot more differentiation with venture funds – for example, we closed our Industrial Technologies fund in October 2019, for automation, robotics and the Internet of Things. A few years ago it would have been hard to find that kind of specialised fund on a new and exotic topic like this, but thematic funds now are a lot more usual – there is a lot of depth and knowledge in the market."

2020 has already got off to a strong start in the region, with three first-time specialised funds entering the market in January alone. 415 Capital and Heal Capital focus on healthtech, while ECBF targets companies involved in the circular bioeconomy.

Looking to the future, von Frankenberg hopes to see an uptick in IPOs in 2020, following just two private equity exits via the public markets in 2019, according to *Unquote Data*. "The number of IPOs in 2019 was very low if you compare it to any other developed region," says von Frankenberg. "I think that could change with the stock market going up. There are a few companies in our portfolio such as eGym or Next Kraftwerke that could go public sometime maybe in 2021 or the next year. There are many other companies that have achieved a size enough to be public in 2020 – N26 and Flixbus are candidates." ■

DACH venture capital fundraising



Source: *Unquote Data*

Adapting to ESG

Harriet Matthews
Reporter

Attendees at *Unquote's German Private Equity Forum* in November 2019 took part in an interactive poll to rate what they regarded as the key regulatory challenges. ESG was the top-voted factor, demonstrating that the topic is at the forefront of the minds of market players in the region.

Ali Floyd of Campbell Lutyens points out that Germany's industrials-based economy is by no means a barrier to successful ESG implementation: "You see groups like Ambienta buying industrial businesses in Germany specifically to implement a positive environmental thesis. Just because the German economy is more industrial and automotive-based, it does not mean that it is lagging behind other parts of Europe on this issue."

> "[ESG] is now a key component of due diligence – it is more mainstream and is regarded as a minimum requirement"
> *Dominik Meyer, Axon Partners*

Indeed, Daniel Heine, head of private debt at Patromonium, notes that exclusionary ESG criteria have been considered in investments for a number of years, but not by this name and with a different emphasis. He cites the example of a coal mine: companies such as this would now be excluded for many investors based on ESG factors, but they may well also have been excluded in the past, as Germany's coal industry is heavily dependent on subsidies and this could heighten the risk that a business model might not be able to support loan repayments.

Demands from LPs are a strong motivating factor behind ESG implementation, says Dominik Meyer of Axon Partners: "ESG is now a key component of due diligence – it is more mainstream and is regarded as a minimum requirement. [However], with some exceptions, the LPs in the DACH region are not the most demanding; the Dutch and Nordic investors probably lead the way in Europe."

Magda Nowak of Axon Partners highlights the demand from the US: "ESG has been a growing topic in the last few years – quite a number of funds used to be more relaxed about it, but LPs are really pushing it, especially following the best practices by the Institutional Limited Partners Association to standardise the industry and GP-LP communication. Most US LPs are very keen on ESG topics and the LPs that are more structured have separate operational teams who are focused on operational due diligence, where substantial parts are ESG-related. Given this demand, there has been a shift in GP thinking, as, naturally, they will face additional requests in the fundraising process – so, a lot are implementing ESG in a more coherent, structured way."

Investor integrity

Heine argues that ESG is essential in a competitive market: "ESG will continue to be one of the differentiating factors – LPs are super professional, and as soon as they do due diligence on you as the fund manager, they will very quickly realise if the ESG implementation is a bare minimum and just on paper, or if you are really living it and trying to make a difference. I am convinced that they will give you more credit if you are not just fulfilling the minimum – it can be a very positive distinguishing factor."

Establishing an ESG implementation model

ESG is a key regulatory concern for GPs and LPs alike in the German market. Harriet Matthews reports on the factors at play and how the DACH region has adapted to these developments in 2019

for investors can prove to be complex, as Heine explains: "Across all four asset classes, it is exactly the same discussion: the systematic implementation of the criteria is currently very different. If you buy a building, for example, the factors are how energy-saving it is, what materials are used, and quality of life aspects – this is completely different from credit, where you look at the business model, products and the markets they are in. So, the challenge is to integrate models specific to your investment universe. This will take time but will improve year on year."

In black and white

2020 has already been a year in which ESG has formed a concrete part of GPs' and VCs' investment strategies. January 2020 saw 26 DACH-based venture capital firms include a legally binding ESG clause in their term sheets and shareholder agreements, committing the parties to implementing and making their employees aware of sustainable practices.

Heine does not see the need for the market to establish a standardised model for now, however, pointing out that investor demand and the UN's principles for responsible investment (PRI) reporting process facilitates comparable end results: "I don't think you need a model at the beginning, but of course over the years if you create the report, the trend is that investors will ask for more and more details – not just the report that you publish under PRI, but an ESG audit on the investments, and then you need to mandate an auditor and it will become a specific ESG regulatory audit. There will be professional auditors, and the better your processes are, this will become a corrective and a determining factor for institutional investors that put a strong emphasis on it."

> "LPs will quickly realise if the ESG implementation is a bare minimum and just on paper, or if you are really living it and trying to make a difference"
> *Daniel Heine, Patromonium*

Case study: Mirabaud's Lifestyle and Impact Fund

Mirabaud launched its second private equity fund in January 2020, targeting two investment strands: emerging B2C businesses and brands in the lifestyle sector, including beauty, cosmetics, fashion and jewellery; and B2B companies bringing new technologies and innovation to the consumer goods market through disruptive marketing, distribution, production or management models. Renaud Dutreil told *Unquote*: "What was key was to put in place a methodology, an ability to measure the progress that is accomplished by companies. We will install indicators to measure the progress of the companies, to be able to quantify what has been achieved in terms of sustainability in the investment lifetime. That is the core intention, it all depends on the ability to measure, quantify and be disciplined in how the indicators are built, to see how the companies can have a reporting mechanism that is reliable and corresponds to what has been defined at the beginning as sustainability goals. We want to be exemplary in terms of measurement of goals and means."

Q&A: Hamilton Lane

Sofia Karadima
LP researcher & writer

Sofia Karadima: You joined Hamilton Lane in 2018 to lead business efforts across DACH. How is your role helping the organisation to expand its presence in private markets in the region?
Martina Schliemann: The first step in strengthening Hamilton Lane's presence in this market was to do a deep-dive on the various DACH-based LPs and analyse each institution's specific needs. We believe investor appetite for private markets is growing due to a confluence of factors: market circumstances (including the negative interest rate environment), geopolitical risks and generally compressed returns from traditional asset classes. But, individual LP needs differ based on size, current portfolio construction, target exposure, risk profile, corporate governance, and regulation.

"The younger generation is more focused on generating both social and environmental impact alongside financial returns"
Martina Schliemann, Hamilton Lane

SK: What type of LP is more interested in accessing private equity?
MS: These days almost all types of LP in the DACH region are interested in private markets. Some are newcomers to the asset class, while others are highly sophisticated and have been active in this space for years. Pension schemes and insurance companies are the most active LPs in DACH, but we're also seeing a lot of demand from family offices, endowments and private banks.

SK: How are LPs trying to access opportunities in private equity?
MS: Depending on the risk awareness, most investors in DACH tend to want to diversify their assets. A fund structure can be a good option as it allows them access to the market quickly and with a broader range of single investments. Direct investments are often made by investors who already have an existing portfolio and would like to achieve additional benefits with a single strategy as a further diversifier.

SK: What is the best way to embrace environmental, social and corporate governance (ESG) criteria in DACH, given that industrials and chemicals are among the most popular sectors in the region's PE market?
MS: Consideration of ESG criteria in the investment process is undoubtedly an important topic for LPs in DACH. All LPs are requesting it in different ways. Some of the LPs put ESG on the top of the list of their investment decisions, while others use exclusion criteria.

With appetite for private markets growing across the DACH region, Sofia Karadima catches up with Martina Schliemann, business development principal at Hamilton Lane, to discuss private equity, market opportunities and ESG

We established a dedicated responsible investment committee to oversee this area carefully and implement it into our investment process. From our experience, the private market in DACH is not only focused on industrials and chemicals; rather, we've seen a broad range of industries and some pretty innovative VC or small-cap funds that are very familiar with ESG topics.

SK: Debt funds supported 56% of German buyout financings with a credit volume of between €20-500m in the first half of 2019, up from 32% in 2017. Do you see private debt funds taking more share from the banks in the DACH market in the near future?

MS: Corporate private debt is the most popular sub-asset class in DACH, followed by real estate and infrastructure debt. Given the market dynamic of monetary policy and the need for yield we still see a robust demand for private debt, especially direct lending funds. The bank lending model has had a history of more than 100 years, while the private lending model has done very well over the last couple of decades. Given the fact that direct lending to sponsored companies has been crowded in recent years, investors might benefit from diversification of their credit risk within private debt.

SK: Has LP appetite for private debt increased in the past year?

MS: Private debt is still favoured by LPs as they use it as a successor to their fixed-income investments. Due to the negative interest rate environment, the focus has been to shift from liquid to illiquid. Appetite has gone up in the past year with a focus on moderate risk exposure for private debt investments.

SK: What other trends have emerged in the DACH region?

MS: Infrastructure, private equity and private debt seem to be neck-and-neck in popularity within the DACH region. Impact investing is on the rise, as the younger generation is more focused on generating both social and environmental impact alongside financial returns. There we see a new paradigm.

SK: How is the fundraising market in the DACH region going to develop in 2020 and what is your expectation for dealflow?

MS: We see several reasons why we believe growth in the private markets is likely to continue: potential for continued outperformance as well as downside risk protection; familiarity with industry structures and performance characteristics on the part of investors; a continued low-interest-rate environment, which could be making private strategies more attractive; and a growing opportunity set relative to the public markets.

SK: How different is your organisation's approach when investing in DACH?

MS: Switzerland has a longer history in the private markets compared to the other two markets. We expect to see more activity in Germany and Austria in the coming years, as there is still catch-up potential in this area.

Our overall approach to private markets investing does not change, though we of course do consider and take on board the country-specific regulatory requirements.

League tables

A snapshot of the most active private equity investors in DACH, both by volume of deals completed and by aggregate value of those deals

Most active GPs in DACH by volume of buyouts 2018-2019

Fund manager	Number of deals	Value of deals (€m)
Deutsche Beteiligungs AG	12	1,113
VR Equity Partner	8	179
EQT Partners	6	14,535
IK Investment Partners	6	774
Paragon Partners	6	535
Afinum Management	6	282
Waterland Private Equity Investments	6	249
Aurelius Equity Opportunities	6	217
HgCapital	5	3,435
Bregal Unternehmerkapital	5	510
Deutsche Private Equity	5	451
Capiton	5	449
Invision Private Equity	5	326

Most active GPs in DACH by value of buyouts 2018-2019

Fund manager	Value of deals (€m)	Number of deals
EQT Partners	14,535	6
Abu Dhabi Investment Authority	11,121	2
Public Sector Pension Investment Board	8,934	1
Canada Pension Plan Investment Board	8,900	2
Kohlberg Kravis Roberts & Co (KKR)	8,350	3
Advent International	6,093	3
Partners Group	5,270	3
CVC Capital Partners Limited	4,875	4

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Copy & Production Editor – Tim Kimber
Managing Director – Catherine Lewis

For advertising enquiries – Thomas MacKinnon
+44 (0)20 3741 1389 thomas.mackinnon@acuris.com
For subscription enquiries – Enrico Cattarossi
+44 (0)20 3741 1329 enrico.cattarossi@acuris.com