

# Private Equity International

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## PRIVATE EQUITY NEWS & ANALYSIS

# Wafra CIO's advice to GPs: Focus on deals

Russell Valdez of the \$25bn investor discusses how GPs can ease pressing concerns of LPs and how the firm is supporting its managers during the coronavirus crisis

Wafra last week picked up a stake in financial and business services-focused firm Pollen Street Capital via its partnership with RPMI Railpen and Alaska Permanent Fund.

Capital Constellation, as the emerging manager seeding platform is known, was established in 2018 and has since seeded six specialist and mid-market managers. The firm is also ramping up its exposure to European managers, after having set up an outpost in London early this year.

We spoke to Russell Valdez, Wafra's chief investment officer, to find out how the investment firm is supporting its managers, what it expects from them and how the market environment is affecting capital commitments.

### What's your most important advice for GPs right now?

Focus on the deals. The deals that will get done in this environment are not the result of auction processes. They are ones where there are strong existing relationships - exactly the deals that investors in early-stage funds want to participate in.

Put yourself in the shoes of an aspiring investor-entrepreneur who wants to launch a firm - where she has a track record but can't



Valdez: Overcommunicate to your LPs in times of distress

get to investors due to travel restrictions - and ask yourself what's the best way to get started? The deals. So, focus on the deals and focus on capital partners who can take you through many stages of your development. That's what Capital Constellation is built to do. We can work with independent sponsors who might aspire to launch a fund under different market conditions but now need to operate in a less structured way. Or we can help launch a fund right out of the gate and enable that manager to start investing

immediately. We can bring co-investment capital to support deals with our broader ecosystem. And of course, we can help a manager develop all the processes and procedures to have a best-in-class operating environment so they can spend more time on their investments.

### How should GPs ease LP concerns about their portfolios?

Overcommunicate to your LPs. This is when LPs are re-evaluating their entire portfolio because of significant market movements and are trying to understand what their managers' likely capital needs are, as well as understanding how assets are performing.

All LPs work with multiple managers, so they are getting to see what is happening in many industries. This will help them generalise to broader market conditions. Frequent reporting and updates will help an LP provide more value to that LP's CIO, helping to inform deployment of capital in the private equity bucket for the remainder of the year. Overcommunication engenders goodwill and a real spirit of partnership. We are seeing the best managers do that.

### What distinguishes emerging

## **managers in Europe from those in the US?**

In Europe one of the things we've been trying to figure out is how to appropriately capitalise the lower growth environment. We ask how we can position ourselves with next generation investment managers that play well in that environment.

We believe that structured equity and junior capital is something the European market needs more of in order to appropriately balance risk and reward, as the vast majority of private capital that has been raised in European PE is either in buyouts or direct lending. There is a role, and a need, for more flexible capital. We are therefore looking for managers that have expertise in this area.

Providing solutions for family-owned businesses also continues to be an attractive option for us in Europe, and the market has developed tremendously over the last

couple of years. Actually, these themes are connected because we think structured capital has a role to play in mid-market Europe as well as in the architecture of family-owned firms. We also think industry specialisation is a more nascent trend in Europe than it is in US and there are going to be big opportunities here.

## **How are you spending most of your time these days?**

This environment is exactly why we spend time not only with founders but also their entire teams in our due diligence process, so we can understand commitment to the overall team welfare. If you're making 10-12-year commitments to organisations, you need to know that the whole team is aligned and treated properly. And you need to know that they are building organisations for the long term - facing up to challenges like business continuity and cybersecurity before,

not after, the onset of a crisis.

As for our schedules these days, this is the time that our partners need us to step up most and circulate best practices and innovation through our ecosystem. We are calling on our extensive relationships, both to support our existing partners and to surface new opportunities. Wafra and Capital Constellation are actively deploying capital in this environment, and, in these times, Capital Constellation's value proposition to investor entrepreneurs and next generation managers is stronger than ever.

Russell Valdez is CIO of Wafra and serves on its management advisory committee and board of directors. He oversees all negotiated alternatives transactions spanning strategic partnerships, real assets, private equity and alternative finance and real estate. He is also founding board member of Capital Constellation. ■