Commentary

Five questions with ICG Enterprise Trust's Emma Osborne

In February last year, Intermediate Capital Group acquired the London-listed fund investment business of Graphite Capital. Secondaries Investor caught up with Emma Osborne, the vehicle's head of private equity fund investments, about what has changed in the 16 months since the acquisition and her plans for the Trust over the next five years.

By **Adam Le** - June 2017

Emma Osborne

How has being part of ICG affected your investments over the last 16 months?

It has been incredibly helpful in giving us access to a broader range of dealflow and insights into the market. At Graphite, we always felt that being an LP within a GP was a competitive advantage, and we've retained that dynamic. However, Graphite did around 10-12 deals over a five-year investment period in a quite narrow part of the UK mid-market, whereas at ICG we've got access to 136 investment professionals in 13 countries, most of whom are doing deals with private equity managers every day. It's hugely valuable for us to be able to pick up the phone and get insights into managers we're looking at backing from colleagues with first-hand experience.

How has your investment focus changed?

Fundamentally we're doing the same but with a slight shift in emphasis. One of the objectives was to increase US exposure. At Graphite we were almost entirely Europe-focused but when you look at performance, the US has outperformed Europe every vintage since 2005 for buyout. Many of our peers have benefited from that and from currency gains when converting that back into sterling. We had felt we were too far out of line with our peers and wanted to be more balanced. We started looking more at the US while we were still at Graphite, but now we can accelerate that with a lot more confidence. We've gone from 14 percent to 21 percent [US exposure] in the year and I expect that trend will continue. We have a medium-term aim of 30 to 40 percent in the US.

We are also doing more with in-house strategies which, as well as offering a good balance of risk and return, gives our shareholders a fee advantage as we don't charge a fee on those. We've been long-term backers of the European mezzanine and equity strategy and we've also added the ICG Strategic Secondaries fund, which focuses on end-of-life fund restructurings, and the Asia-Pacific mezzanine fund.

What types of deals are you looking at?

We are looking to do more "high-conviction" investments which include ICG directly managed investments, co-investments and secondaries. These are investments that we have a high conviction will outperform and where we have done the due diligence on the underlying company. Blind-pool investments go in the portfolio on average at around £1 million of exposure whereas when we make a co-investment we're looking to add £10 million or more, so we are massively increasing our exposure to these assets. For these deals we are looking for highly defensive businesses with market-leading positions and strong management teams we think will be able to weather economic cycles.

At the moment, the high-conviction portion is 42 percent, but our medium-term target is 50 to 60 percent. Last year we also did a number of late primaries where there were assets in the fund when we committed. Out of 10 new fund commitments, four had this feature. This means there was almost 60 percent of new investment where we'd been able to do due diligence on the underlying company before it was added to the portfolio, which is different from a pure fund of funds investor.

How would the Trust be different today if you had not joined ICG?

There were three big challenges the board set us when we moved. One was to get more fully invested; one was to increase proportion of the portfolio that's in ICG investments, and the third was to increase US investments.

We've historically been underinvested and in the last five years the cash drag has cost us an average of 2.2 percent a year in performance. We arrived at ICG with 20 percent cash and we ended the year 94 percent invested and I've got no doubt that being part of ICG has helped us get there. Also, some of the third-party opportunities came through the ICG network, so I think we would have invested in a different opportunity set.

What is your vision for the Trust over the next five years?

I would like to think that we will be part of a thriving listed private equity sector, as I think it's a brilliant product for retail investors and small institutions.

We'd like to increase both the co-investments and secondaries from the 25 percent and 15 percent today. We've added one to the team and we will almost certainly be hiring [another]. We've got strong co-investment experience on the team but it's possible that we'll add somebody from a traditional secondaries background. We've done 24 LP secondaries deals since 2010 and invested around $200 million but we'd like to beef that up. We're having those conversations in conjunction with Andrew [Hawkins, ICG's head of secondaries] and his team over how we can best work together.

Emma Osborne is ICG Enterprise Trust's head of private equity fund investments. She has more than 22 years of experience in private equity and has been the lead portfolio manager for at the Trust for almost 13 years. Osborne previously spent 10 years in various roles in private equity, including at Merrill Lynch Investment Managers, Morgan Grenfell Private Equity, Royal Bank of Scotland and Coopers & Lybrand.