top1000funds.com
INVESTMENT STRATEGIES FOR THE WORLD'S LARGEST INSTITUTIONAL INVESTORS

IN CONVERSATION

Private equity is not an asset class: Siguler

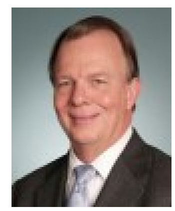
BY GREG BRIGHT | DECEMBER 8, 2010

Is private equity an asset class? George Siguler (pictured), a doyen in the field, a former head of alternative investments for the Harvard endowment that formed his own firm, and a pioneer of unlisted investments in the BRIC countries, thinks not. He spoke with Greg Bright about the state of play in private equity.

George Siguler, co-founder of the $9 billion US-based private equity firm Siguler Guff, that led the Harvard endowment's now-famous foray in the alternatives space in the 1970s, believes private equity (PE) is less an asset class and more a platform for idiosyncratic opportunities.

These days, with a track record dating back to when he started at Harvard in 1973, he has more than 100 endowments as clients in the firm's various funds, although US and international pension funds – about 10 per cent of the firm's assets are derived from Australia, for instance – comprise the bulk of the funds under management.

Even though George Siguler often says 'private equity is all about deal flow', the firm starts its investment process with a top-down view of the opportunity set in the world. It dedicates resources to explore themes and then looks at how best to deploy capital to exploit those themes.



Siguler Guff''s early funds were direct but, in order to widen its reach, it has branched into funds of funds (FoFs), augmented by co-investments from the partners.

The very first fund, in 1992, was a distressed real estate fund which looked to buy pools of loans in the US Savings & Loans crisis of the time. This was followed by a lending pool for venture capital and a fund investing directly in Russian private assets.

"The funds of funds came as an outgrowth of the opportunity set in distressed debt," Siguler says. "We played with this at Harvard in the 1980s … it also made sense to diversify our clients' specific risk. Pension funds are unlikely to go out and seek 10 to 20 managers in a private equity strategy."

While he was early into venture capital, including lending to Facebook, Siguler is not very optimistic for the sector for pension funds. "Venture will come back," he says. "But I'm not sure it will use institutional capital to create excess returns … There's a ton of capital in the 'insider' market in venture. I think venture works in Silicon Valley and nowhere else in the world…

"Venture made money in its heyday through technology, but this was often by buying the IP which bounced around. It was a time when IP was not so protected and this is not the case today."

Siguler believes that emerging markets will also interfere with the potential of venture capital, by adopting western technologies and then leap-frogging the west because of greater efficiencies.

Siguler Guff has about $1.6 billion invested in Russia. Its latest fund there is a distressed debt fund.

"Nationalism prevails in all countries," Siguler says. "So we have 40 people in our Moscow office – all Russians." The firm has 115 investment professionals in total.

The biggest theme at the moment in emerging markets is the explosion of the middle class and, therefore, the rise of domestic consumption.

But Siguler says it is difficult to find companies which will benefit from that theme in the emerging public markets. They are also very volatile and trade at about twice the multiple of emerging private markets.

In PE, speed of delivery of capital is important, he says. When investing through another manager, deal flow is crucial. In China, for instance, any manager who does not have at least 25 deals to invest in is not competitive.

Siguler also says that a segment of the market which he has always liked is small buyouts. He defines 'small' as having less than $10 million in annual pre-tax income, which is a segment most large PE firms ignore. His firm tends to go for established companies which need to make a generational change.