

Buyouts

By: Kirk Falconer
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LPs

Ontario Teachers' private equity: today less an LP and more a very big GP

The equities group oversaw C\$70bn of assets last year, 80% of which were direct interests managed internally. Even among Ontario Teachers' largest Canadian peers, this is an outsized share.

Ontario Teachers' Pension Plan, known widely as a top private equity investor, is perhaps underestimated in its foremost role as a buyer and seller of companies.

The pension system was in the thick of last year's vigorous PE dealmaking, investing or committing about C\$10 billion (\$7.8 billion) globally, roughly 2x its outlay in 2020 and 2019.

The deployment was a mix of direct and fund investing, however, the lion's share was absorbed by about 20 direct deals, three-quarters of them led or co-led by Ontario Teachers'. They included the acquisition of software provider Mitratech for \$1.5 billion and the acquisition alongside PAI Partners of eye-care clinic network Veonet, reportedly for \$2.3 billion.

A decided preference for direct investing is part of a PE tradition at Ontario Teachers' "started ages ago," Karen Frank, global head of equities, told Buyouts. In fact, it can be argued Ontario Teachers' is today less of an LP than it is a very big GP.

The equities group, led by Frank since 2020, oversaw C\$70 billion of assets at the end of December, 80 percent of which were direct interests managed internally. Even among Ontario Teachers' largest Canadian peers – who together pioneered institutional direct investing – this is an outsized share.

That this is not better known, even in



Karen Frank, Ontario Teachers' Pension Plan

informed market circles, is due to Ontario Teachers' hesitation to talk about itself, Frank said.

"We're humble Canadians," she said. "We don't pound our chest. We try to be very sound, very reliable investors who think about what best-in-class looks like and who do a good job."

Differentiated

Frank nonetheless believes Ontario Teachers' is a differentiated investor possessing capabilities that make it stand out in a fiercely competitive PE industry.

"We don't have a traditional fund and the fund doesn't have a term," she said. "We are an active investor with fungible capital." This enables flexible investing

across strategies – everything from buyouts and growth equity to structured equity and PIPEs – independently or with fund partners and other like-minded investors.

Lacking a fund's "natural inhibitions," she said, Ontario Teachers' can be an agile dealmaker with global reach. "It allows us to say, 'We really like this business or we really like the dynamic in this sector.' I tell my team, 'If you really like the opportunity, find the trade, find the capital or design the kind of capital that goes into that company.'"

This agility was on display over the past few months. Ontario Teachers', for example, acquired a majority of Acorn Healthcare, a US autism treatment provider, while on the other side of the world, it was a minority investor in VerSe Innovation, India's biggest local language tech platform.

Ontario Teachers' long-term horizon is another differentiator that facilitates, among other things, value creation.

"Sometimes the value creation playbook is going to take longer to execute," Frank said. "We're thinking about not the next twenty-four months and preparing a company for yet another sale but about how we put it on a path to build long-term value."

Sector smarts

The equities group is made up of private capital and high-conviction equities, which invests across the capital structure of listed

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businesses. Equity investments generally range from \$100 million to \$1 billion and target well-managed companies in industries with positive secular tailwinds across North America, Western Europe, China, India and Australia.

The private capital team has long specialized in six sectors: consumer, diversified industrials and business services, financial services, healthcare, sustainability and energy transition, and tech, media and telecom.

“Where the core of it, what we really focus on, is making sure we have deep sector knowledge,” Frank said. In large industries like consumer and healthcare, the goal is to dig into and explore niche opportunities. “We try to be quite disciplined and ask, ‘What is interesting, where is the best place not just for this year but for five years or even ten years?’”

Ontario Teachers’, for example, targets opportunities in a few high-growth healthcare sub-sectors, such ophthalmology. Several recent ophthalmology investments, including last year’s Veonet, owe to in-house domain expertise acquired over time.

A specialization in sustainability and energy transition is a rebrand of the former energy and power. It reflects, Frank said, Ontario Teachers’ pledge to achieve net-zero greenhouse gas emissions by 2050. This has driven fresh initiatives, among them a commitment to TPG Rise Climate Fund, closed this year at \$7.3 billion.

Another space of increasing interest

is tech adoption. “I’m super passionate about innovation,” Frank said, “investing in companies that undertake digitization or using digital capabilities to invest across a range of businesses.”

A priority, she added, will be digital disruption of traditional sectors in which Ontario Teachers’ is active, such as insurance. “If we don’t start thinking about those tools that may not, per se, transform an industry but may be key to long-term competitive advantages, we will eventually be left behind.”

Solid performance

The equities group’s portfolio investments have typically averaged a one-year net IRR of about 20 percent. When Frank arrived at Ontario Teachers’ two years ago from Barclays Private Bank, she thought this “an enviable track record” – for any GP.

In 2021, Ontario Teachers’ did even better, earning a one-year net IRR of 29 percent. This was helped along by exits, including the sale alongside Wind Point Partners of polyvinyl chloride maker Aurora Plastics and the sale alongside Stella Point Capital of payment tech provider First American Payment Systems.

Because of the consistency of returns, Frank has no plans to alter the portfolio’s ratio of direct and fund investing. “I’m pretty with happy with the strategic as well as the performance part of the size of the direct book vis-à-vis the size of the funds book and the size of public book.”

This balance, she noted, will support

Ontario Teachers’ objective to grow its assets to C\$300 billion by 2030, from C\$242 billion today. Private equity presently accounts for about one-quarter of all assets.

Uncertainty ahead

Ontario Teachers’ recognizes the deal environment has changed significantly because of inflationary pressures, rate hikes, Russia’s invasion of Ukraine and other factors, Frank said. “This year started out so differently from what the world expected.”

Growing market uncertainty and volatility, however, is not fazing her. “I think being agile and challenging ourselves is the way we get through this,” she said. “We’ve been cautious. We’ve pivoted from last year in the things we’re focused on. We’re now leaning into sectors like financial services and healthcare services, parts of industries we feel are more resilient.”

Frank leads an equities group team of more than 140 investment professionals, operating from offices in Toronto, London, Hong Kong and Singapore. They might soon also be located in a new Ontario Teachers’ office in India.

Senior team members include Romeo Leemrijse and Bogdan Cenanovic, global group sector heads; Harj Shoan, global head of funds; Jean-Charles Douin, head of private capital EMEA; Raju Ruparelia, head of private capital APAC; and Maggie Fanari, head of high-conviction equities. ■