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A failed deal or rocky vintage isn't a write off for Natixis' Flexstone

The funds, secondaries and co-investment unit of the $1.4trn asset manager wants to see evidence of private equity professionals going into companies to 'do the work', managing partner Nitin Gupta tells PEI.

Global investment firm Flexstone Partners allocated more than €900 million across US and Europe in 2021 via fund investments, co-investment and secondaries. The lower and mid-market-focused investor, which is majority owned by Natixis Investment Managers, was formed in 2018 via the merger of Euro Private Equity, US arm Caspian Private Equity and Eagle Asia Partners.

As of year-end 2021, Flexstone had $10 billion in assets under management and advisory across the US, Europe and Asia. Across its history, it has invested in more than 500 funds globally with over 300 GPs and has executed on in excess of 120 co-investments, managing partner Nitin Gupta, who leads its US investments and sits on its global advisory investment committee, told Private Equity International. On the secondaries side, its "core secondary track record" is 45 transactions. Its total secondary track record includes 100 funds acquired through secondaries transactions representing a total of $822 million invested since 2007.

Here's what the firm is looking for in the managers it's seeks to back.

Gupta: it's not a given that you'll be backing a winner based on most recent fund performance

Expect a thorough going over of your history and strategy

Flexstone wants to see evidence of operating partners or professionals going into companies to do the work, as opposed to being all talk with a great pitchbook on value-add strategy.

"Many times, we do a lot of reference calls with the portfolio company CEOs to figure out what exactly was the value-add of this private equity fund," Gupta said.

Equally important is a manager's approach to failed deals. Have they learned lessons? Or have they simply walked away from a transaction?

"There are some private equity funds that even if the deal hasn't done well, they've really poured all their energy into at least trying to turn it around, bringing in all the resources that they had at their fingers to really help that management team."

There's no guarantee of a re-up with Flexstone

The firm re-diligences a manager each time it comes back to Flexstone for a new commitment.

"If you look at private equity funds, the number of repeat top-quartile performance continues to go down, so the persistency is coming down in private equity versus historically," Gupta said.

As a result, it's not a given that you'll be backing a winner based on a recent top-quartile fund. In the same vein, just because a manager has had a bad vintage doesn't mean it will not outperform with its next fund.

"[Some LPs think] if they're great performers let's just allocate, which is great, but that's sort of what everybody does," Gupta said. For those that have struggled with a bad vintage, "there's a lot of lessons learned by these funds that really turns them around, and we feel that we can identify some of those firms."

The firm also considers strategy drift. If a firm is going through a succession, is moving up in size, or branching out across new sectors and business lines, for example, Flexstone wants to see that the manager is able to keep to the core strategy that has generated great returns in the past.

Seeking the 'sweet spot' for co-

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investment

Gupta estimated the firm invests in about 6 percent of the co-investment opportunities that comes its way. It is able to execute on co-investment deals quickly, which "allows us greater access to these deals from the GP, but it's really maintaining those relationships", which is particularly important in the mid-market where timing is everything, Gupta said.

As well as doing its own due diligence on which sectors it feels it should invest in, the firm identifies the "sweet spot" for each of its GPs when it comes to picking which deals it invests alongside. This is based on sector, value-add strategy and approach to valuations, as well as individuals and their track record.

"A lot of opportunities fall out because, based on Flexstone's analysis, it doesn't fit the GP. It might be a great deal, but we are [also] trying to minimise the losses. And that's really core to us when we look at co-investments," Gupta said, boasting an under 4 percent loss ratio across the 120 deals it has backed. ■

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