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Private Market Talks: Inside the GP Stakes Opportunity with RidgeLake Partners' Todd Milligan

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What's driving the growth of GP stakes investing, and where is the opportunity today?

In this episode of *Private Market Talks*, Todd Milligan, co-head of RidgeLake Partners, joins partner Howard Beber to discuss the evolution of GP stakes and why the middle market has become a key focus for long-term partnerships. Todd shares how RidgeLake approaches minority equity investments, the role GP stakes can play in growth and succession planning and why culture and alignment matter more than ever.

During the conversation, Todd and Howard also explore how LP perceptions have shifted, how deals are sourced in a relationship-driven market and what's ahead for GP stakes as private markets continue to mature.

Howard Beber: Welcome back to Private Market Talks, a Proskauer podcast where we dive deep into the world of private markets and talk with the people shaping the future of alternative investments. I'm your host, Howard Beber. Today, our guest is Todd Milligan, co-head at RidgeLake Partners. Launched in 2020, RidgeLake Partners is a strategic partnership between Apogem Capital and OA Private Capital. RidgeLake's GP stakes strategy typically targets minority equity investments and middle-market GPs.

Target strategies include private equity, private credit, secondaries, real assets and infrastructure. In our conversation today, we'll explore Todd's perspective on GP stakes investing from the market landscape to various partnership dynamics. We will also discuss what's to come in the future of GP stakes investing. As with all our episodes, you can get a full transcript of the episode and other helpful information at privatemarkettalks.com. And if you enjoyed the episode, drop us a note. We would love to hear from you. And now, my conversation with Todd Milligan. Todd, welcome to Private Market Talks. It's great to have you on the show.

Todd Milligan: Howard, thanks for having me. I'm excited. I'm looking forward to telling your listeners a little bit more about this market.

Howard Beber: Well, great. Let's get going. As I like to do, I tend to start with just some background to try to make sure the audience understands your history and where you've come from and how you've got to where you are. So, if you don't mind taking us for a few minutes through your career path and how you found your way into the GP stakes business.

Todd Milligan: Sure. Absolutely. So after a few years of sell-side investment banking out of school, I joined what was Private Advisors back in 2006. And Private Advisors, or PA as we were known in the market, was really an offshoot of the University of Richmond's endowment, which is where I went to school. And the CIO of U of R at the time, Lou Moelchert, had been an early adopter in alternatives, both in private markets and in hedge fund strategies, going way back in time to the 80s before it was as mainstream as it is today. And when he started PA, it was an emphasis in both of those strategies and in the private markets, and PE was really an emphasis on the lower middle market.

So, when I joined PA in 2006, I was really on the fund investment side of our platform, where we were investing a series of multi-manager funds, really targeted on the, what I would call the lower middle market in North American private equity. So, funds typically below a billion in fund size, often on fund one, two and three, buyout and growth-oriented strategies in nature. And that was really the franchise we were building within the PE side of PA going back in time. And so, I spent a little bit over a decade on our fund investment team as we continued to raise additional multi-manager strategies, and we really built out the private market side of our business from just being a fund investment program to active in co-investing, active in the secondaries market through dedicated vehicles in each, active in the private real assets market.

And so, over the first 10 years I'd been there, we really started to build out these different verticals across the private markets, and it was an exciting time, obviously, in the private markets as well. As we started to do more in a direct basis, in co-investing and in secondaries, I was really working across all three components of our business: funds, secondaries, co-invest. And we're doing a lot more together with our peers in our secondaries and co-invest teams, just around the same underlying managers in terms of direct deal opportunities, secondary opportunities. And what we started to see in the market was some of our better performing managers growing into the middle market, and when they had success, we saw them selling minority ownership interest really for growth capital needs for their business in the form of a GP stake to some of the larger players in the GP stakes market at the time. This kind of gets into the 2016, 2017, 2018 time period.

And honestly, we stepped back and said to ourselves, "We've been a really active relationship partner with these GPs for many years, in some cases, going back to day one. Couldn't we have an interesting role in this ecosystem, just leveraging that relationship and the breadth of knowledge and information that we have about these firms, their portfolios, how they run their businesses and how they do it successfully as they scale over time?" And so, that was really what started the idea in our head about what could GP stakes look like and what would a middle market focus look like in that?

And then, obviously, if you think about what was Private Advisors and what is Apogem Capital today, you know, Apogem Capital is a little over $44 billion. It's a combination of what historically had been Private Advisors, Madison Capital and Goldpoint Partners, which were three New York Life-owned asset management investment firms focused on the private markets. And so effectively in 2022, those three businesses were put together as Apogem. And so as part of that, it really expanded our reach even further across the private markets with really an emphasis on the middle market. And so as you think about the partnership today within Apogem, it's really leveraging what goes way back in time to PA and now is really kind of part of the Apogem story.

Howard Beber: Yeah. Thank you for the background. I think, you know, one thing for our listeners to understand, this is pretty interesting. When you and I both got into this business, there wasn't really a GP stakes. It wasn't really a thing. I'm sure there were certainly firms that had sold pieces here and there, but it wasn't traditionally a strategy. It wasn't until, I don't know, I'm getting old now, but probably about 10 or 15 years ago where this started to be a real thing. So, you started your career, as you said, in banking and then doing maybe more traditional private equity type investing, fund investing, etc. When you got into the GP stakes world, what did you learn that was different about the typical PE investing and what surprised you?

Todd Milligan: Yeah. I think as we started to think about the opportunity in GP stakes, you're looking at things from a slightly different perspective than just the traditional LP side. And so, one of the things that surprised me the most, and I continue to learn a lot looking through this through the lens of the GP versus an LP, but I think having that LP experience for close to 20 years can be really informative as to how we think about manager selection and our own investment process. But one of the surprising things, just one example, we started to see the emergence of managers thinking about raising small-cap funds or ancillary strategies beyond their flagship strategy. And I think if you're wearing the LP hat, oftentimes the view would be, "Oh, the manager's looking to grow assets," or, "It's an AUM gathering exercise."

I think the one thing I've learned a lot from looking at it from a different perspective today is that oftentimes these ancillary strategies — whether it be a small-cap fund or a structured capital fund, maybe they're starting a credit business, whatever it may be — it's really a retention opportunity for the GP to give the next generation of leadership an opportunity with a dedicated strategy internally, because some of these firms have a hard time as they develop their talent to have enough room for all of the people that could be partners in the organization. And so, I think there's as much of a retention element and an opportunity element for some of these new strategies as it is anything to do with AUM growth. And I think that's something I have a better appreciation for now, looking at these opportunities through a different lens than I may have had just thinking about it with the LP hat on. That's one example.

The other, I would say, is the feedback we will get from GPs at times, and I've heard this on a number of occasions is, you know, "Hey, it can be a little bit lonely at the top." And I'll hear that from GPs I've known for many years that I have a ton of respect for, but as they continue to grow their business, I think they look around and sometimes it's a question of, "Where can I really get direct, honest, candid feedback and advice on our own business, and what's happening around us in the market?" And sure, they have friends and peers that run other firms in the market, but I think oftentimes that old saying "it's lonely at the top" resonates to them because it's like we could use a sounding board or a strategic partner, like just to help us on this journey and to be there in a more objective way but also an aligned way where you're invested alongside them as a partner in their business.

Howard Beber: Later on, we get more into why these deals make sense for GPs and the type of partners they're looking for. But before we do, maybe just a little background for those who are less familiar with RidgeLake in general. We just heard it's a joint venture arrangement between Apogem and OA, but maybe a little bit about strategy, what RidgeLake's approach is, differentiating factors between some of the other players in the market?

Todd Milligan: Sure. So, I kind of gave you a sense as, like, my background from the PA days going through 2018, 2019. And that's where we really started on our side as Apogem today, thinking about GP stakes. And for us, we were seeing an opportunity, as I mentioned, to partner with some of the best and brightest firms as they continue to grow but just in a different way than being an LP in their fund or in a deal or as a lender across our platform. And it was intriguing to us to be an even bigger part of their business and a real side-by-side partner with them. We had known the team at OA Private Capital, which, as you mentioned, based in Michigan, who has been an active, very active investor in the private markets for decades, like Apogem.

We had known them going all the way back to the early 2000s, had been peer LPs in a number of funds on LPACs together across many firms you'd recognize today. And they had been investors in some of our underlying Apogem strategies, as well. They were one of the early pioneers at OA in PE/GP stakes investing going back to 2015. And 2015 is when you're really starting to see the GP stakes market kind of evolve from having been active in the hedge fund space to really shifting more into the private markets, particularly in private equity. They completed six investments during the course of 2015 through 2019 with prominent managers that you would recognize today in the middle and upper middle market. And frankly, they wanted to do more of what they had started off their own balance sheet in GP stakes investing and were looking for a potential partner to really grow within that vertical.

At the same time, as I mentioned, we were looking to get into that strategy. And so, the partnership opportunity was really quite simple for us. It was someone we had known for two decades. We both had a mutual interest in pursuing this. We wanted to take it together into the middle market where we thought there was white space relative to some of the early players in GP stakes that had grown well up market and were looking at some of the larger cap managers. And we could leverage their experience, our 350 plus GP relationships across our Apogem platform, and really start it with anchor capital, and that was the simple recipe for how this came to be, effectively in 2020 when we first formed Ridge Life Partners.

Howard Beber: You raise a good point worth emphasizing, right? The early stages of the PE/GP stakes market was concentrated in the larger segment of the market. And so, that white space is interesting where you guys came into play. So, let's talk a little bit about deal flow. You've talked about all the relationships that you guys have in the space from different parts of the business, which makes complete sense. Is that, generally speaking, where your deal flow is coming from, or would you say it's proprietary type deal flow? Are you guys participating in auctions?

Todd Milligan: I'd say it's all the above. And so, if you think about RidgeLake's mandate today, middle market, so, what does middle market mean? For us, firms with one to 20 billion of AUM. I think our real sweet spot's kind of been the two to 10 billion size range, and that's where a lot of our relationships obviously lie from both Apogem and OA. We're focused on private equity secondaries. We'll look at opportunities in credit and infrastructure, real assets, which you mentioned. What we won't focus on, we're not looking at hedge fund strategies. We're not looking at venture capital. There's opportunities there, just not areas that we've been an active investor in historically or actively today. And so, we want to leverage what we know and leverage our own expertise, obviously.

And so, that's how we frame the opportunity set. In terms of deal flow, I mean, we got into this business really to take advantage of the relationships we had built for multiple decades. And while it's not a precursor where every deal we do has to be someone that we've had a long-dated relationship with, if we look at the eight investments we've already completed as RidgeLake since 2020, six of those eight have been firms that we had a long history with, either as a fund investor, co-investor, lender, secondary investor or all of the above, frankly. And so for us, it's about talking to our relationships in the market, explaining that we have this capability, understanding where they are in their own growth journey, making them aware of this opportunity because many GPs, even in the middle market today, don't fully understand how these deals work.

There's still an education process happening in the GP ecosystem as well as the LP ecosystem about GP stakes. And for us, being able to kind of be a friendly partner and help them understand what we're seeing and the opportunity we're seeing in the market, in some cases, that turns into two, three-year dialogues that we have before they ever make a decision or have a need for that capital. If and when they do, then I think we're well positioned. Oftentimes, you'll see transactions get done on a one-on-one basis between a stakes investor and a GP. There may be an advisor involved, frankly, to help with process efficiency because these GPs, while they sold their portfolio companies over and over, they'd never really thought about bringing on an outside investor for their own business. And so, when they turn that inward at times, sometimes they can use some help just managing that process, just like they do when they sell a portfolio company.

And also, to give a fairness view on value, right? If it's going to be a one-on-one negotiated deal, sometimes there may be an outside advisor just to make sure that the GP feels comfortable, that they don't really need to take this to market. And then there's situations that, you know, we could call them auctions, although I always kind of laugh at that word because typically if there's a competitive process, so to speak, there may be six to eight groups looking at an opportunity because the universe of GP stakes investors is not vast, as you're aware. And there are some that are focused more up market, obviously ones like ourselves in the middle market, others that look at smaller opportunities, maybe geographically focused opportunities. And then there's the whole seeding market, which is really a different market than where we're actively playing. And so, if there's a GP that's looking to bring on a partner and they hire an advisor to do it, there's a predefined list of groups like ourselves they're going to be talking to.

Howard Beber: How's that changed since when you started to now in terms of competition in the market and other players that are looking at the same space that you guys are?

Todd Milligan: I could probably count on two hands the number of active players with dedicated pools of capital to really pursue this strategy. We've seen some newer entrants that focus on Europe, in particular. There's been a few that may focus on venture, for example, which I think is an area where GP stakes has not been as active as what you've seen in kind of buyout and other private market strategies. But by and large, if I think about the competitive landscape in our market, going back to 2020, when we started RidgeLake, relative to today, the net new entrants, probably two to three.

And so, I still think there's a lot more opportunity for capital deployment than there is capital that's been formed in GP stakes. And we always like that mismatch from an investment standpoint. And I think that's even exacerbated. It goes even further if you think about the middle market opportunity. And in the middle market, one of the interesting components is it's a bit of a self-replenishing opportunity because as firms that are lower middle market managers continue to have success and grow and raise fund three and fund four and grow their fund sizes north of a billion dollars, that could just continue to happen organically over time, probably at a faster clip than those that scale and raise five, $10 billion funds and outgrow our market opportunity. And we like our positioning given our respective platforms at Apogem and OA as LPs in the market, just because we can really build these relationships on the Apogem side where we're very active in the lower middle market, as you know, we can build these relationships early as LPs in different ways and really be there as a potential GP partner after they've kind of grown for 10 years into what we would define as the middle market today.

Howard Beber: Yep. So, let me ask you a question that — this has always been sort of interesting to me. I think when these deals first started happening — I guess I should say I'm asking you now to flip back to 10, 15 years ago when you were an LP. LPs were nervous about these deals, right? This whole industry is built on trust and built on alignment. And LPs, if a third party was investing in a firm and had a stake in the GP and the management company, I think at the beginning anyway, LPs were concerned that that alignment wasn't necessarily going to be what it had been traditionally. Not to steal the thunder, I think by and large, many LPs have gotten over that for lots of different reasons. I'm curious about your views as to sort of how that's changed over the years.

Todd Milligan: It's come a long way. Way before RidgeLake, echoing what you were saying as an LP, if a manager sold a GP stake, go back 10 years. It was so opaque in terms of what that meant, and there were very few data points to kind of compare it to. But I think it left LPs nervous because when you don't know what's behind it, I think, like anything in life, you can start to maybe assume the worst, right? Versus assume the best. And there were questions about alignment and are GPs cashing out? Is this good for us? And are we aligned with the GP at this stage? Which are reasonable questions to ask, for sure. And I remember having many of those thoughts myself going back on the LP side.

I think as more of these have happened, and if you look at the list of managers that have sold in the private equity space, let's say, in the last 10 years, you're talking about groups that are in the upper tiers of performance in the PE asset class over that time period. You know, this capital tends to be available for the better performing managers. And so, I think as LPs have seen some of their better performing GPs sell a stake and have had five to 10 years of time to see what happens after that plays out, they've started to take some of the fear and concern and unknown off the tail about what does this mean and what happens as a result. There's not a big graveyard of GP stakes that have happened and where the firm has had a big challenge as a result of that. In fact, I think it's been quite the opposite, if you look at the data in terms of how these GPs have performed after the stake sales occurred. And so, you've had time for the LPs to understand that.

And frankly, the market's just gotten a little bit more transparent in terms of the communication between LPs and GPs and the other constituents of the market that really understand how these deals work, to where the LPs have gotten educated. And many of the LPs have become investors themselves in GP stake strategies like ours to where they fully understand how these investments work. And so, I think some of the early concerns and fears have been alleviated. There's still some myths in the market that the minute a GP stake is completed, the GP is going to be fully incentivized and motivated and forced to grow. That's just for the sake of growth, that the investor like ourself is going to come in with their own growth agenda and tell the GP how they should grow their business, which we try to explain that's pretty far from the truth, because in reality, what we want is the firm to perform where their LPs are going to be happy and ultimately, we'll be happy because that's going to allow them to grow with success over time. The last thing we want to do is try to push some sort of agenda that's going to disrupt the relationship with their LPs, because we're going to be just as poor off as a result of that.

Howard Beber: Yeah. You know, some observations I've had over the years, LPs tend to be a bit of a skeptical crowd to begin with, which is understandable because the information flow that LPs have is never going to be what the GPs have. So, that's understandable. And, by the way, even that's come a long way over the years, as you know. Early on, GPs were concerned about doing these deals because once they open up their books and show LPs that folks like you and others are looking to get into their funds, and they realize how profitable their management companies are, they started to worry about that. That, by and large, has sort of passed some.

But I think now we're at the stage where it's really a stamp of approval, more than anything else. If an LP sees a GP is doing a stakes deal of reasonable size, obviously, I have certainly found that it's not viewed as a negative. And in fact, it's oftentimes viewed the other way. Someone who's really smart and knows what they're doing has done a lot of due diligence on these firms and has decided that they are, you know, worthy investments. I think that's where we are. I assume you would agree with that.

Todd Milligan: I agree. And I think if I'm an LP today and one of my GPs announces that they've sold a stake, I would ask, "Why are you doing it," or "What's the rationale, and how's the capital being utilized?", right? First and foremost, if the GP can't provide a clear answer to that, that's a challenge. And frankly, if I'm flipping, putting my GP hat on for a second, as we've diligenced these opportunities, we want to understand just as much, okay, what's the opportunity here? What's the capital being used for? What does this do in terms of the organization itself for the next five to 10 years? Because that's a huge diligence theme for us, as well. And so, I think the GPs understand that more today perhaps than they did 10 years ago, too. But it's just become a more transparent market, and I think there's been a lot of positive results post-GP stake transactions. And frankly, we're in a market where the firms that were established in the late 90s and into the mid-2000s are 20 to 25 years old today, right?

And that’s the first generation of partners are facing some sort of succession planning. The ones who have probably thought well ahead are going to have an easier time of it. But I think these, as it’s been well-documented in the market, these types of transactions can help be an answer for succession planning. And oftentimes, LPs will be asking GPs for several fundraises. Okay, how are you going to handle succession planning when that time comes? And so, we’ve seen situations, even in deals we’ve pursued, where I would almost call it a sense of relief or kind of finally closing the chapter on those ongoing conversations with LPs about, okay, now we fully understand how this firm’s going to carry on for the next 20 years, and thank you for figuring this out in a thoughtful way and giving us transparency as to how we can feel comfortable about the next generation of the firm.

Howard Beber: Why don’t we dive into what makes a good stakes deal? What sort of GPs, what are you looking for? When you talk to potential investment partners, potential GPs — but again, the market’s evolved. So most, I would assume, understand, at least at a high level, what these deals look like and why one might do them. But what is your reaction — are you still finding folks hesitant, asking questions, things that surprise you about how GPs react when they’re approached?

Todd Milligan: I think it’s still an education process in the middle market. There are some that are more sophisticated, understand it a bit more, others that we talk to that are just starting to kind of think about that. And there’s probably a correlation there between age of the firm, fund number, AUM, as well. As you continue up the growth continuum, I think more firms start to really explore this and think about what it means and can start to educate themselves, whether it’s talking to groups like ourselves or other advisors in the space or their legal counsel about it. And so, I think there’s still an education that’s happening. The one piece that I think most GPs want to understand is, what does it actually mean for us in terms of your involvement in our business? Is it zero? Is there a lot? Like, what does that look like?

And for us, and I think many of our peers in the GP stakes space, we customize where we can help based on what the GP is looking for. It is not a forced set of agendas that we have to come in and execute. We're a minority investor at the end of the day. We're typically owning, you know, less than 20% of these businesses. And we want to be there as strategic sounding boards and thought partners and really help across a number of continuums, but we want to customize that to what the GPU is really looking for. And so, we're doing nothing to get involved in how they manage and run their business. We're doing nothing to get involved with how they run their investment processes. Obviously, if they want our perspective on how other firms may do it or what best practices look like across investment processes or how firms think about exit or exit committees, we're happy to share and dig into our database to give people perspective on how others in the market do it. But our agenda is not to come in and try to tell the GPs how to change. They've gotten to a point on their own without us to where they're already great performing firms. We want to just help them on that growth journey in whatever way we possibly can.

Howard Beber: What are they often looking for besides money? Obviously, there's some financial component to this. Some of it's primary capital for growth. Some of it may be secondary capital for succession planning, things like that. But putting that aside, because showing up with money, a lot of people can do that. What are they usually looking for as a, for a partner that's not financial.

Todd Milligan: Yeah, beyond the financial elements, if we think about our approach as well, and I think this aligns with what they're typically looking for in terms of help, it goes across four verticals. So, capital formation, I'll call it LP and product strategy, portfolio analytics and operations, and org design or comp structure at the end of the day. And I would say a lot of the time we spend with GPs is on capital formation, where we can help extend their reach, whether it be within North America through the investor network that we have or across the globe, through the 30 plus fundraising professionals we have as part of our broader parent organizations that are across Asia, Europe and the Middle East as well.

And so, trying to leverage and think about new capital introductions is one, and then the other one that is probably most frequent, I think, goes to the org design and comp structure. How's our firm built relative to our peers? What does our compensation structure look like relative to our peers? How do we think about carry allocation? How are we bringing next generation partners into the management company? What does that look like? How do the best firms do it? So, I think between the capital formation LP side of their business and the internal team and comp and organizational elements of their business, those are probably the two areas where I feel like we spend the most time on specific engagements with our GPs.

Howard Beber: Why don't we dive into what a good potential investment looks like? Are there certain core attributes you look for that tend to be consistent among your investments or consistent among successful managers?

Todd Milligan: Yeah, it's interesting. We get asked this a lot, and I think about it a lot just the LP experience as well, right? At the end of the day, like we were, or I was as an LP, we're in the manager selection business, right? But we want to apply that and then figure out ways we can partner to really help these firms continue their efforts and grow successfully over time. And so, there's a lot of attributes that look very similar to an LP underwriting. If you think about strategy, process, performance, right? Some of that's table stakes as we think about the GPs who we want to partner with. I think where we lean in a bit more and where we have a different perspective and think and spend a lot more time evaluating these opportunities is when it comes to the people side as well as the customer side.

And so, we're going to spend more time evaluating the human capital component. And I, frankly, if I think about our LP days, and Howard, you'd appreciate this, like I think Apogem, and going way back in time, PA, probably had a reputation for spending a lot of time on the human capital component of what we did. We would do 360 interviews with the team as part of our diligence and one-on-one assessments, leveraging kind of what the old ghSMART methodologies look like. And frankly, we've modified that on the Apogem side over the years.

But even if I take that to what we're doing with RidgeLake, the people component, we're backing teams of people at the end of the day, and we don't lose sight of that. And so as much time as we can spend focused on slicing and dicing someone's track record or how they have the repeatable process that allows them to scale, we really want to get comfortable with the people component, the cultural component of the firm, and what they're doing to think about the longevity, because we're not making a decision based on one fund, right? We're making a longer-term decision around what will be several funds and potentially some new areas of growth for the GP rather than just having to isolate over a five-year investment period.

Howard Beber: Yeah, man, how one diligence culture and how one helps build and grow and sustain culture, I think is probably the million-dollar question for all of us, right? Any red flags, anything you've seen over your years that convinced you that everyone's going to say they have a great culture, right? It's easy to say, it's hard to maintain it, especially as one grows. So, anything that you look for particularly one way or the other from a cultural perspective?

Todd Milligan: I think we've always thought about it, whether it was an LP or on the GP side. On the GP side, I think one indicator that we think about of many is as we start the conversations with the managing partners of these firms is, who's aware of this opportunity? Who's aware of you potentially bringing on a partner? How deep does that knowledge go within the organization? And listen, there are reasons why you don't go tell the entire firm necessarily on day one that you're considering selling a minority stake.

However, I think as that goes on, what the communication process looks like internally and eventually externally, I think is a pretty good indicator of culture, particularly on the internal communication side, because what we found, I won't call it a red flag, but something we certainly think about is if the information is being kept very close to the vest and not being shared, and let's say we close our investment in day one after closing, it's a huge surprise, both internally and externally. That's a risk for us, and I think a risk for the firm that's bigger in nature. I think that's one derivative of culture as we just evaluate these managers. It's just the internal communication process that they go through around this type of potential event in their business because it is an important event, right? Bringing on a third-party partner potentially for the first time is new and different. And so, that's something we think about as, it doesn't always define their culture per se, but I think it's a good indicator as to how they run their business.

The other piece is, we got into this strategy to take advantage of the longstanding relationships that we had built on the LP side. And so, not every deal we do is someone we have a 20-year relationship with, but I do think there's a bit of an advantage when you could walk in and have had a 15-year investment relationship with a team, not just two individual partners per se, to really understand, have a better feel for some of the softer qualitative elements of these transactions and the people element of these transactions versus just the dollar and cents and economic aspects of these deals. And so, I think it's been very valuable to us if I think about the deals we've done and the deals we haven't done. That's been a big part of our decision-making process, is really leveraging in not just the data, but just the experience we've had as partners with many of these folks.

Howard Beber: Yep. So by now, you guys have done a bunch of deals without naming names, obviously. And I'm sure some have gone very well and as you planned, and I'm sure there's probably a few that hopefully not too bad but maybe didn't go quite as planned. Any lessons to be learned, any things to share about what a good deal looks like and perhaps where the challenges are?

Todd Milligan: Yeah, I think I'll even take it back a step further if I think about holistically both what RidgeLake's done as well as like our history predating RidgeLake through OA and GP Stakes. I think there's been a few learnings that we think, and the market I think has seen this as well. One is probably dilution and the impacts that can have on underlying investment. And I think you've seen the market evolve as to how they structure dilution provisions in these transactions. The other is, I think as firms think about growing, it's often easy to underestimate the costs associated with adding a new strategy or adding a new team or opening a new office. And so, as we think about the underwriting of the transactions and think about potential growth opportunities, I think that's been another learning. Either of those are situations that are what I would call major deal disruptors. But as we think about sharpening our pencil in underwriting and how we think about structuring our investments, I think those are a couple learning points that we and probably the market have observed as well.

You know, the other piece for us, it's interesting, we started this in 2020. Obviously, the market had been on a 10-year run absent the COVID blip, and continued to be white hot going through the course of 2021 and really into the beginnings of 2022 before we started to see things really change. And the last three plus years have been a very different environment for private equity in particular, from fundraising, distributions, liquidity, as it's been well discussed and publicized across the industry. I think we're starting to see some changes in the other direction. However, I think we approached this as we thought about underwriting assumptions in these transactions, really from what we had seen through cycles over 20 years and to where it got to a point where managers were raising capital at much larger sizes, much more frequently fund over fund. And I think you've seen that normalize a bit, and which I think is a good thing, frankly, for the market. But as we just think about our own learnings, it's just staying disciplined and underwriting through cycles, whether they're good or bad in terms of, as you and I have seen over 20 to 30 years in this market, we'll go through ebbs and flows. I think over time, you're going in the positive direction, but just making sure that you stay grounded in your assumptions over long dated data points that can drive where you're anchoring to versus what's happened the last two years.

Howard Beber: Yeah. All right. Let's shift to a question that I'm guessing you get from, or at least used to get, maybe you still do, from almost any LP you talk to, which is how do you get out of these investments? What's the market look like these days and how has it evolved to exit these investments over time?

Todd Milligan: It's funny, we've never been asked how do you exit these investments before from an LP. So obviously kidding. But no, it's been, as I think about my own experience in the last five plus years vis-a-vis RidgeLake, we've seen a lot happen in this. And so since 2020, we've tracked over 50 liquidity events in this space, including we had one ourselves in our first investment in our RidgeLake portfolio where a secondaries manager was sold, actually sold again after that.

And so, there’s many opportunities, I think, as we think about liquidity. Obviously, it’s a question we get a lot because this is a long-dated investment strategy. And I think you’re now starting to see a lot more proof points as I referenced, because for all the capital that was formed, call it between 2016 and 2020 in this market, now some of that capital is five to 10 years old and you’re getting to a natural point where some either full or partial liquidity opportunities are arising. I think what we see the most happening is either single-asset sales where the stake itself is either sold upmarket to another stakes manager. We started to see more stake-to-stake transactions. And, you know, we think about that. At the larger end of the market with our larger brethren, potentially looking at some of our investments as the next opportunities for them, which is great to have that just like as a middle market PE manager, look at large cap PE as an exit opportunity.

I think the same holds in GP stakes. We’re seeing single assets happen where it’s a control sale to strategic buyers. The consolidation wave that’s happening in asset management is real. We’ve seen it most directly in secondaries, credit, and infrastructure. One of the long-term trends that I think about and that I think you’re going to see more of is consolidation happening in the PE market, which has been few and far between, but you’re starting to see more signs of it. And as we have conversations with GPs, and back to your point on use case for the capital, we’re having more conversations with GPs thinking about inorganic growth opportunities versus just building something on their own. Can we go acquire this team or bring this skill set in-house by acquiring or merging with another organization? And so, I think you’re going to continue to see that, which bodes well as an exit opportunity for us. And I think in the specialist strategies, like I mentioned, there continue to be a lot of strategic appetite to acquire these businesses ultimately.

And then I think the other piece is really GP-led options. You were having a lot of conversations in some of your prior podcasts about the secondaries market and the GP-led secondaries market. And we have our own secondaries capability within Apogem. As we think about everything that's happening on the GP-led side and continuation vehicles, we think that technology applies fairly well to GP stakes. The reason why many of us set up our strategies as long-term capital is as we're looking to partner with these GPs, we're not looking to tell them, "Hey, in five to seven years, we're going to come to you and tell you we have to sell." These are meant to be long-term partnerships. So, if we can create a liquidity option for our investors through a CV or through some sort of GP-led tender offer, where we can stay in the GP seat as partners to our underlying GPs and have some investors stay, some investors trade, new investors come in, it lends itself well to this opportunity.

So, you're seeing the early signs of that happen. I think you're going to see more and more of that developing over the next five to 10 years as that CV technology gets applied to GP stakes. And then there's been strip sales and other types of partial liquidity tools and dividend recaps happen in this market. As I am thinking about the different levers we can potentially pull for an exit? I think that's how we're approaching it. And as we think about building a portfolio, exit optionality is something that goes into how we think about portfolio construction, right? How could we potentially look at an exit option here beyond a GP led? How does that score as we think about the opportunity as well? Not that we want to exit in five years, but down the road, is that an option or not?

Howard Beber: Yeah, I've been thinking about this. It's obviously an interesting investment. It's an investment into a GP stakes fund. You've got the management fee component, which makes it look more like a sort of income credit type fund where there's fixed income coming out on a regular basis, but you've also got the upside on the carry and some of the capital. So, it's an interesting investment that I think can satisfy a number of different folks. It might even be something where structured solutions will come into play. I'm sure they have already, but certainly not in mass.

Todd Milligan: Absolutely.

Howard Beber: Yeah. Selling pieces of investments off like one would do in the CLO or the CFO market. But before we get to the end, I guess to validate my thinking process, the type of LPs that like to invest in these products, are you seeing the typical private equity type LPs, the foundations, the endowments, or are you seeing more of the kind of insurance company credit type LPs who are really in it for the income?

Todd Milligan: Yeah, it's a good question. I think the yield component of GP Stakes is a big selling feature, I think, for anyone who's looking to raise capital. And I think as we talk to investors, it certainly resonates with insurance LPs, resonates with pensions, I think certainly resonates with family offices who often have a longer investment horizon. You know, you're seeing, I think, more from the RIA community representing high net worth individuals. And so, those are logical channels, I think, for GP stakes. And those that have what I would call a private income component to their asset allocation, which not all necessarily do, I think GP stakes would be an interesting component of that LP's own portfolio construction.

The other piece as I think about — or two things — as I think about GP stakes in the LP side and one of the reasons I was attracted to this opportunity in the first place, just leveraging what I'd done historically as an LP. I view it as a combination of some of the more tried and true and established private market strategies. So, if you were to think about a multi-manager fund or a fund of funds and a co-investment fund and a secondaries fund and why LPs invest in each of those three things, well, if I'm an LP looking at a multi-manager fund, I like the diversification I get across managers and across a few vintage years and look through basis to a couple hundred portfolio companies and so I'm not taking kind of single manager, single deal, single vintage year risk, right? So, the diversification is important. Co-investment, it's more fee efficient. I don't have layers of fees. I'm getting direct exposure without taking on as much kind of fee leakage, but you're taking more concentrated risk.

And the secondaries, it's a nice J-curve mitigator. The capital gets deployed sooner, you're getting capital back sooner. If I look at GP stakes, I've always thought of it as the best of all three put into one wrapper. And so, I'm going to get the diversification across eight to 10 managers, but I'm not just getting one of each of their funds. I'm getting backwards vintage diversification for all of their historical funds and the exposures I have there, plus everything they do going forward.

So if I look at like one of our portfolios, we might have 20 years of vintage or diversification, that number will continue to grow over time. And I'm going to get it across a higher count of portfolio companies that I might just through a direct fund or even a multi-manager fund. One of the three income streams we underwrite is owning a portion of the GP's own commitments to their funds, both backwards and forwards, which I look at as you're getting fee-free co-investment across their entire portfolio, right? So, kind of a replacement for the co-invest component. And then, because these are businesses where we're going to be distributing cash flow from day one just given our attachment to the firm's earnings, plus their legacy assets and their existing funds, there's a yield and cash flow component, just like a secondaries strategy coming out of the portfolio the minute you make the investment. And so, I say all that because for investors who are on the earlier end of their private markets portfolio creation, and they think about their alternatives, and they have advisors telling about the benefits of fund of funds or secondaries or co-invest, I think stakes needs to be a real part of that conversation as well, because for some that maybe don't have the ability to do as many things as they start that journey in the private markets, I think GP stakes can be a very interesting way to leg their way into the market and get the benefits of all three of those at once. And so, I think that's why you started to see a lot of traction in the private wealth and RIA space with GP stakes is for this exact reason.

Howard Beber: Yeah, I agree with you. And I have to say, I asked earlier about competition. I'm a little surprised that there are not more folks in the market. Let's get to the crystal ball part of our conversation. We've got a few minutes left. So, as I tend to do, I like to ask where you see your world heading in the next five to 10 years? Maybe I gave it away. Maybe the answer is you see a lot of people entering this because it's a really great business, but I suspect that's probably not the case. I know there are barriers to entry here and not everybody can do this, but what's your view over the next five or 10 years in this world?

Todd Milligan: I think the established players in the space will continue to grow. There'll be some new entrants. I think there's more barriers to entry as a GP stakes investor than people might perceive. Capital is a barrier to entry, you know. These can be capital-intensive types of transactions. It's hard, I think, to deploy a — if you had a $250 million GP stake strategy, you're going to be targeted at a very small component of the GP market in terms of size. So, it's very different. So, capital can be a barrier for sure. But I think you'll see a few new entrants, but not as much as probably gets discussed and publicized out there. In fact, I think the amount of new entrants is actually a lot lower than people perceive just based on what they read.

I think you will see more and more activity in the middle market, both from those of us who are focused on it, as well as from some of the larger players who look at that opportunity as well over time. And I think there's just a growing demand from GPs who have seen some of their peers transact or are now thinking about what this could mean for me. Back to one of your earlier questions about like, why are GPs coming to you? What are they looking for? A lot of GPs on the private equity side in particular have been through an interesting two to three-year period as we talked about. And I think the value of having a partner there at the table, not just for capital, but also for all the non-economic reasons and could really be there as someone they can lean on as they go through, would have been some bumpy times in the market, has become more valuable to GPs and to managing partners at these firms. And so, and the conversations we're having today, I can certainly sense that's part of the conversation.

And there's a lot of GPs who look at this as a moment in time where it's time to play offense, where they're like, we want to have a balance sheet. A lot of middle market GPs haven't really thought about that concept that we have our own balance sheet to really be aggressive with. More and more are starting to see this as an opportunity to really build a capital base internally they can do some more things with to compete vis-a-vis the number of other players they have in the market. And so, I think there's an offensive element. And so, I think that's why you'll continue to see this adoption in the middle market.

And then, the last trend I would point to, and I mentioned this earlier briefly, is just, I do think this asset management consolidation wave you're seeing in other parts of the private markets will start to really take hold more in PE. You know, there are thousands of private equity firms, there are thousands now of independent sponsors. You will see more consolidation over time, and I think that's a good thing for our own business and GP stakes just as we think about our own optionality with these. But I do think that's a trend that's we're really in the very, very early stages of in the PE vertical specifically.

Howard Beber: Yep, I think that's right. This has been a great conversation, and I want to thank you. I appreciate you joining me on the pod. Any final thoughts for our listeners?

Todd Milligan: No, I really appreciate the time. Thank you for inviting me. This has been a lot of fun. It's been great working with you over the years in a number of different capacities. And so, it's exciting to be able to do this with you here today. And, you know, obviously, if any of your listeners have questions, hopefully they can reach out. We can educate them even more about this market opportunity.

Howard Beber: Thank you for saying that, for sure. I appreciate it. And I've enjoyed working with you and the team as well. I want to thank our listeners for listening to this episode. And again, if you've enjoyed the episode, drop us a note at privatemarkettalks.com and keep an eye out for our next episode coming your way next month. Thank you. And thanks again, Todd.

Todd Milligan: Thanks, Howard.

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