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Sports, SPACs, Secondaries: Managers Blast Off with New Funds

By Tom Stabile   March 17, 2021

The biggest private fund managers have been on a product development tear over the past five years, launching a deluge of strategies across every corner of the alts marketplace, including more than a dozen new products and platforms in just the past year. But even as Apollo Global Management, Brookfield Asset Management, KKR, Ares Management, Carlyle Group and Blackstone Group are populating product menus with funds tackling new asset classes, regions, investment trends and niche opportunities, they each have wide swaths of "white space" to launch more strategies.

Tracking the new launches shows the big firms echoing each other on broader themes, tilted a few years ago toward direct lending and impact investing strategies, and today favoring special purpose acquisition companies (SPACs) and insurance company acquisitions. But each firm also appears to be picking spots for greater focus, such as Brookfield's push into varied flavors of real estate, infrastructure and renewables investing; KKR diving deeper into Asia and infrastructure; Ares carving out specialty credit and sports-media-entertainment investing into dedicated funds; and Apollo pumping up its lending, dislocation credit and SPAC offerings.

And most of the largest fund managers signal they are not close to slowing down, including Apollo, which still has "plenty of white space" to conquer, said incoming CEO Marc Rowan on an analyst call last week that outlined the manager's big move to merge with its Athene insurance affiliate.

The big managers are helping to drive a deeper trend across the alts fund marketplace that has seen the generalist private equity buyout manager fade from view, and the rise instead of multi-product behemoths and sharpshooter specialists, says Hugh MacArthur, head of the global private equity practice at Bain & Co., a consulting and research firm.

"We've seen the rise of the specialists, the increase in specialization, over the last five to seven years, and it's in full flower now," he says. "The world is awash in capital… and there's money everywhere to do deals. Raising capital is no longer a differentiator – the differentiator is ideas."

The search for returns is another driver, with historically high asset pricing making generalist buyouts fueled by leverage no longer a safe bet to generate outperformance, MacArthur says. That pushes managers to focus less on seeking the best deals in a big pond and instead use specialized knowledge to "fish in very specific ponds" for an investing edge.

That has led managers down many different paths, including long-hold funds, sector-specific investing, impact and climate mitigation strategies, or growth equity, he adds. "That's why we've seen a lot of this innovation taking place," he says.

The product spread takes many forms, but the white space tracker table below looks specifically at new launches of dedicated funds within particular strategies, or at dedicated new business lines such as the creation of a third-party capital markets business, the launch of special purpose acquisition companies, or adding platforms that own insurers and control their assets. The chart doesn't tally up investment teams whose segments roll up into larger generalist funds, nor does it look at large, established product lines these largest managers have operated for years, with the aim at showing where they might still have room to add products.

Searching for White Space

The largest private fund managers in the market have been on a product development tear in recent years, but they all appear to have ample room to push out even more dedicated new funds and initiatives. Our "white space tracker" looks at newer strategies that Apollo Global Management, Ares Management, Blackstone Group, Brookfield Asset Management, Carlyle Group, and KKR have launched over the past six years, and spots where each of the managers still have white space to develop additional products.

Our tracker leaves out the mainstay strategies all of the firms have long pursued, such as global private equity, U.S. real estate, distressed debt, opportunistic credit, real estate debt, collateralized loan obligations, and energy, and instead looks at spots that have been recent new additions for some or all of the players. It also does not list segments where managers have investment teams but not dedicated strategies. Blank spaces denote opportunities for fund managers to develop new standalone strategies or businesses.

Fund or platform	Apollo	Ares	Blackstone	Brookfield	Carlyle	KKR
Agriculture				pre-2015		
Aircraft leasing	pre-2015				2018	
Aircraft lending	2019					
Asia private equity			2017		pre-2015	pre-2015
Asia infrastructure						2019

Fund or platform	Apollo	Ares	Blackstone	Brookfield	Carlyle	KKR
Asia real estate	2015		pre-2015			2019
Asia private credit		2020				2020
Capital markets	pre-2015				Future	pre-2015
Core-plus infrastructure	2018			2018		2020
Core-plus real estate	Future		pre-2015	2017	2015	2019
Core-plus real estate Europe	2020			2020		
Direct lending U.S. or global	2020	2017	2018	2017^	pre-2015	pre-2015
Direct lending Europe	Future	pre-2015	2015	pre-2015^		2015
Dislocation credit	2015					2020
Energy credit			2015		pre-2015	
Financial services					pre-2015	
Financial services credit	pre-2015					
Growth equity	Future		2019		pre-2015	
Healthcare growth						2016
Impact investing	2020		2019	2020**		2018
Infrastructure		pre-2015	2017*	pre-2015^	pre-2015	pre-2015
Infrastructure debt	Future	2015		2017	2019	
Infrastructure debt Europe				2018		
Insurance platform	pre-2015	2019		2020	2018	2020
Insurance platform Europe	2017					
Life sciences			2018			
Life sciences real estate			2020			
Long-hold or core equity			2015		2015	2017
Long-hold infrastructure				2018		
Long-hold Australian real estate				2018		
Non-traded REIT			2016	2018^		
Non-traded interval fund	2018	2017	2017		2018	2019
Non-traded BDC			2020			
Opportunity zone fund				2019		
Renewable energy / energy transition		2020		2020**	pre-	

Fund or platform	Apollo	Ares	Blackstone	Brookfield	Carlyle	KKR
					2015	
Secondaries	Future		pre-2015	Future	pre-2015	
SPAC	2020	2021			2017	2021
Specialty lending	pre-2015	pre-2015				
Sports / media / entertainment		2020				
Super core infrastructure				2018		
Tactical opportunities / special opportunities	2018	2019	pre-2015	2019	2018	
Technology growth	Future			2018	pre-2015	2016
Timber				pre-2015		
Triple net lease real estate	2018					
Venture capital					pre-2015	

Source: Company filings, FundFire archives

^ - Strategies added through acquisition of Oaktree Capital Management.

** Blackstone previously started and closed an infrastructure business a decade earlier.*

*** Brookfield's renewable energy / energy transition fund is also an impact investing strategy seeking both financial returns and measurable social benefit. We list that fund in both categories.*

Ares “spends a lot of time talking” about where to launch new funds, often looking at the “adjacent” opportunities they have to carve out dedicated funds from broader investing units, an approach the manager will use for its new sports and entertainment buyout strategy, said **Michael Arougheti**, CEO and president, during its fourth quarter earnings call last month.

Brookfield last month also outlined a range of new investment themes, including real estate secondaries, technology private equity and its net zero carbon emissions energy transition strategy.

Not everyone sees continued private fund product growth as a sustainable model. Carlyle CEO Kewsong Lee said at his firm’s investor day event last month that in recent years, the manager has “streamlined our offerings and reduced product proliferation” in favor of “extract[ing] more value from our strengths, pursuing only those strategies that are big and scalable.”

But even Carlyle has been active in recent years adding to its repertoire, contributing to a steady rollout of new strategies, many of which are important contributors of assets under management and revenue. A recent Hamilton Lane market overview by Brian Gildea, head of investments, outlined how more than 50% of fundraising by the 10 largest managers is now coming from outside their flagship funds, and that these biggest firms have an average of 10 product lines.

That uptick of offerings also has helped the biggest take even more market share, with the top 20 funds in the market holding 45% of total committed private equity capital in 2019, up from 29% in 2014, according to Preqin data cited during Carlyle's investor day presentation.

The burst in new products has also led to a surge in hiring, especially for sales, marketing and product specialist roles, says **Sasha Jensen**, CEO at **Jensen Partners**, a recruiting firm.

"They literally bolt on strategy after strategy, and that [leads to] enormous amounts of hiring," she says. "We're getting more and more searches for niche private equity strategies… That's life sciences, sports and entertainment, tech and healthcare."

The rise of specialty investing has clearly eaten into the standing of generalist funds, according to Bain & Co.'s annual private equity research report, which MacArthur co-authored with others. Classic buyout funds have seen their share of capital raised drop from 80% of the market in 2013 to 56% at the end of 2020, the report states.

Those shifts not only reflect the largest firms building up their advantages, including the ability to innovate products and hire talent, but also the ways that smaller and mid-sized firms are choosing specialization as a way to either add capabilities on offense or retrench to the most promising niches for outperformance within their expertise on defense, MacArthur says.

"There are firms that have done multiple line investing in the past and now are transitioning only to healthcare, a narrowing of the aperture," he says.

But embracing specialties also carries risk if a particular strategy falls out of favor or suffers from a black swan event, MacArthur says. "There's always a danger," he adds.