

KEYNOTE INTERVIEW

Partnering with people



Linking strategy and execution to accountable individuals is essential when people and culture are the primary determinants of success, says partner and co-head of Ares Private Equity Group, [Matt Cwiertnia](#)

Q What types of opportunity has the Ares Corporate Opportunities strategy been pursuing throughout covid-19?

ACOF's strategy has the flexibility to execute on both growth buyouts and distressed investments in the middle market. We seek to find the best relative values, defined as the relationship between prices and growth, in an effort to generate attractive and consistent net returns across cycles.

We predominately pursue growth buyouts in high-quality businesses where we have domain experience and there are clear controllable levers for growth. This enables us the opportunity to generate alpha in the fund by focusing on situations where the company can generate substantial industry outperformance/alpha rather than

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relying on beta.

Our strategy is also purpose-built to go on offense during periods of market volatility, where we seek to flex into opportunistic distressed investing in good companies with bad balance sheets. We seek to identify great companies that are experiencing transitory challenges and provide them with the flexible capital needed to navigate through these difficult periods, and ultimately, help them back to achieving their long-term growth potential.

At the core of our strategy, we employ the mentality of "pricing growth" – meaning, we seek to grow companies

at compounded annual growth rates in excess of our entry multiple. We believe this helps create strength and durability to net returns, especially during periods of uncertainty.

In 2020, at the onset of covid-19, we largely focused on industries and companies adversely affected by the pandemic and built a portfolio of distressed investments with exposure to sectors such as travel, aviation, educational services and telecommunications services.

However, once the market started to recover, we leveraged our secular theme work to develop high-conviction growth-orientated buyout opportunities where we believe we had a differentiated experience/angle to unlock value and compound EBITDA growth.

Q Looking to the year ahead, hopefully covid-19 is largely behind us, but we are still experiencing an uncertain macroeconomic environment. How are you pivoting your strategy to reflect that?

In our view, 2022 and beyond is going to be very different than anything we have experienced for many years – a definite turning point. The US Federal Reserve is reversing its longstanding accommodative monetary policy, which has had a dramatic impact on both public and private markets for more than 15-plus years. Against that backdrop, we think industry and secular thematic selection will become increasingly important. Over the past 15 years, a rising tide has lifted almost all boats, but that is changing.

At the same time, there are a lot of private equity dollars out there and those dollars are becoming more of a commodity. As such, private equity firms are having to further differentiate themselves based on the value they can add to a company. You need to prove why you're the partner of choice, based on prior experiences and the resources you can bring to bear to help a business accelerate growth. You can also differentiate yourself based on your investment ethos and spirit of partnership. We call ourselves financial partners, not owners, because we see this as a journey we embark on alongside management.

As a global leading alternative investment manager with more than \$300 billion in AUM as of 31 December 2021, we bring differentiated perspectives, resources and capabilities that we believe can help us win deals in a competitive market.

Q What sectors, or themes, are creating the most interesting investment opportunities for you right now?

We have been pursuing many themes in our four core industries – healthcare, services/technology, consumer and



Q Can you provide an example of how you have created value through the period of covid-19 disruption?

One example is Vmo Aircraft Leasing. We identified the aircraft leasing sector as an attractive one to invest in due to the disruption caused by covid-19. Specifically, the significant decline in global air travel strained industry liquidity and led to an aircraft supply/demand imbalance around 10x greater than during the Great Financial Crisis.

As a result, market dynamics presented, in our view, a good opportunity to create a clean-sheet airline leasing platform, which acquires aircraft from airline operators, lessors and original equipment manufacturers at attractive valuations and then leases the acquired aircraft to airline operators.

We believe we have built a strong aircraft leasing platform, which was launched in January 2021 and through year-end has 33 leased aircraft in the portfolio, with growth potential.

industrials. We have been active and are seeing some of the most interesting opportunities in healthcare services, with a thematic focus of investing on the right side of healthcare. There is a great deal of transformational change happening in the industry, with consumers becoming increasingly educated about their health. They are becoming better buyers of services, whether that is dental care, cardiovascular care, fertility, veterinary care or any other number of specialties. The consumer is looking for better care at a lower cost, which is consistent with what payors are looking for too.

We are starting to see the same trends play out with pharmaceutical services. Patients and providers need to understand what each new drug coming to market does and which can

provide a better outcome at, hopefully, a lower cost. Inefficiencies in the healthcare system and providers that allow people to make better choices is a long-term secular trend that extends into many subsectors. That trend is going to continue, almost irrespective of what is going on in the broader economy.

Q What is your approach to value creation?

We employ what we call the Ares Value Creation System, in which we partner with talented management teams to align on what matters. We spend the first six to 12 months of a new investment doing a deep dive, where we tie together strategy, execution and talent. Some firms will buy a company and employ a third-party consulting firm to

carry out a strategic review and formulate a strategic plan, which may become outdated quickly and not translate into tactical execution. However, our investment teams, who have extensive investing and operating experience, are trained in what we call our mobilisation process.

Our internal capabilities are complemented by an extensive external network of highly engaged executives, including focus area and sector advisers. Our curated network of internal and external resources works in close partnership with management teams to answer key questions and identify key value-creation levers to aid in accelerating growth. We then create an execution plan and tie that to the individual people who will be responsible for delivering it – what we refer to as aligning talent to value.

Through our rigorous performance management process, we track KPIs and discuss progress quarterly, and as necessary adjust based on lessons learned, in order to maximise value creation and better position the company for success. Our system is based on alignment and partnership and it extends throughout the life of our investment – we are a partner from entry to exit.

Q Why such a strong focus on people?

We firmly believe a great culture can be causation for success. In order to achieve, and hopefully exceed our shared goals, we must identify the key talent needed to drive success in critical areas. We play an active role in human capital management, and ensure our companies are investing in the types of people who will contribute to and effectuate the execution of a company's growth strategy.

We have found that having people who identify with and are closely aligned to a company's culture, mission and vision can lead to powerful outcomes for our portfolio companies and is an important differentiator. When

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we look back, a majority of our returns have been driven by EBITDA growth, and when we unpack that growth, we believe that people and culture are primary determinants of that success.

Q How is the emphasis you place on people as a driver of success reflected in your overall approach to human capital?

People are the most important element of any investment, and there are at least two key ways in which that influences our approach.

First, we seek to enable companies to have a deeper awareness and engaged action plans related to diversity, equity and inclusion. In 2021, we developed and executed on our DE&I programme, “AmpliFY DEI”, in which we partnered with 11 management teams of ACOF portfolio companies to perform in-depth reviews of DE&I progress, determining where each company is on its DE&I journey and how it benchmarks against other companies. Once we have a starting point, we set goals together, which the companies report on throughout our partnership. For us, diversity of thought has led to better outcomes and we believe diversity is an integral part of our value-creation strategy.

Second, we are a leader within private equity when it comes to shared prosperity. Private equity firms typically use long-term incentive plans, or option pools, to incentivise management

and align interests. Most leveraged buyouts will have a 10-12 percent option pool for senior members of the management team. For certain portfolio companies, we have worked hard to broaden participation from a handful of people at the top of the company to greater numbers throughout the organisation. We then seek to broaden out quasi-ownership even further, enhancing alignment.

By the time we have a value-creation event, as we recently had at one of our portfolio companies, Convergent Technologies, a broader employee base is benefiting from that success – hundreds of millions of dollars were distributed to over 500 Convergent employees.

Q How should the private equity industry be reimagining itself for the future through the lens of ESG and to leave a lasting impact on its portfolio?

Our ESG approach is grounded in our belief that we can be a catalyst for good to help build better businesses by driving material progress on ESG issues that matter most, which can ultimately aid in generating attractive returns. Private equity still has a perception issue based on old ideas about sponsors' investments practices, but many in the industry are doing great things for businesses and their employees. As the private equity industry continues to get more involved in proactively addressing key ESG topics, it needs to leverage its influence as a powerful force for good.

We believe our long-term success hinges on embedding these principles even deeper into our team's culture. This builds on our people-centric approach to value creation, which is designed to better-position our portfolio companies for growth and success both during and after our ownership. We provide the resources and the partnership – to drive impactful change and growth – to build great, franchise businesses. ■