10 Outrageous Private Equity Predictions for 2020

By Antoine Drean, private equity entrepreneur since 1992

As was the case last year, these outrageous predictions seek to amuse through exaggeration. They play on actual trends, so there is a remote possibility that some may actually come true...

OP1 - Blackstone Raises $25 Billion in a Month
In March, the U.S. Securities and Exchange Commission scraps net-worth restrictions on investing in private placements with new regulations centered on the idea that anyone advised by a professional broker is an accredited investor. Having prepared for this eventuality since the SEC began seeking comment on broadening accessibility to private placements last June, Blackstone, the largest private equity fund manager in the world with $554 billion under management, unveils a pooled vehicle for channeling retail investor capital into its private equity funds. Dubbed Blackstone Main Street, the fund is promoted by a $40 million marketing campaign and raises some $25 billion in its first month.

OP2 - Charles Schwab Purchases KKR
In April, reacting to the success of Blackstone Mainstreet (see OP1), listed discount brokerage Charles Schwab Corporation ($61.3 billion in market capitalization), joins the top-tier of private equity managers in one fell swoop, announcing the $26.4 billion acquisition of listed PE giant KKR & Co. Inc. ($208 billion in assets under management). The purchase, made with a mix of cash and stock, represents a 60 percent premium to the PE firm's market capitalization. KKR presidents Joe Bae and Scott Nutall step up as co-CEOs of Schwab's new private equity unit, replacing KKR's retiring septuagenarian co-founders, Henry Kravis and George R. Roberts. The move sparks a merger and acquisition frenzy as major asset managers, bulge-bracket brokerages and large banks compete to buy up private equity managers.

OP3 - Listed Private Equity Firms More than Double
Rather than sell to big financial groups (see OP2), the managements of many private equity firms choose to list on public markets. By the end of 2020, there are some 25 large, independent private equity groups listed on global stock exchanges, more than double the dozen listed twelve months earlier. Investors' new appreciation of private equity leads Leon Black, the founder of PE behemoth Apollo (listed in 2011), to declare on the David Rubenstein Show, "the public market finally understands rare, valuable creatures like us," a verbatim reversal of a statement he made on the same show in June, 2019. Large private equity stocks soar 80 percent on average over the course of 2020, as investors recognize the cyclical resilience and growth potential of the diversified fee-and-carry model.

OP4 - British Companies Barclays, Prudential and Tesco are Taken Private
Surpassing the three largest private equity deals of all time (TXU - $32.1 billion; First Data - $25.7 billion; and RJR Nabisco - $25.1 billion), banking group Barclays, insurer Prudential, and supermarket chain Tesco - three of Britain's 11 largest companies in terms of revenues - are taken private in three separate deals by global PE firms allied with some of their biggest limited partners. As the clock ticks down to the December 31st expiry of the Brexit standstill transition period, shareholders opt for double-digit cash premiums rather than weather the uncertainty of Britain's divorce from the European Union.

OP5 - Softbank Raises $150 Billion for Vision Fund II, 40% Funded by China
In November, following the August signing of the Phase Two America China Trade Agreement (ending the first major tariff war between the U.S. and China), Softbank Vision Fund founder, Masayoshi Son announces the $150 billion closing of Vision Fund II, handily

exceeding the $100 billion record notched by the first iteration in this venture capital fund series. Some $60 billion, or 40 percent of Vision II's capitalization, comes from state-connected entities in China. Son says that Vision II will invest four-fifths of its capital in Asian companies, emphasizing firms with exposure to China's consumer market.

OP6 - CPPIB Launches a 50-Year Fund
The Canadian Pension Plan Investment Board, one of private equity's most highly regarded investors, launches its first investment vehicle for third parties, the $45 billion Long Term Future Fund. In addition to being the largest growth or buyout-focused fund ever, LTFF has an unprecedented 50-year investment horizon (at least a quarter century longer than any existing fund). It buys minority and majority stakes in companies with competitive moats and a 20 percent or more annual return on equity, in instances where management wants to remain private indefinitely. Although CPPIB shies away from calling this an impact strategy, LTFF will also devote up to $15 billion, or a third of its capital, to what it calls "solutions to seemingly intractable problems." This covers investment in fields such as cancer, neurodegenerative disease and climate change, where public markets and listed companies (because of short-termism) have proven incapable of funding long-term profitable solutions.

OP7 - Warren Buffet's Berkshire Hathaway Launches a PE Division
As consolidation sweeps the private equity industry (see OP2) and price/earnings ratios rise in the public markets, 89-year-old investing legend Warren Buffet, Chairman and CEO of Berkshire Hathaway and a long-time critic of buyouts, launches a PE unit focused on what he calls "smallish, overlooked investment opportunities." With an annual spending target of $4 billion, Berkshire Hathaway's Private Equity Division will invest in companies in highly specialized sectors where a lack of competitive bidding results in highly attractive valuations. To the frustration of virtually all investors (except his own), Buffet won't reveal what sectors the new division is zeroing in on. "If we did, there wouldn't be any bargains," he says.

OP8 - Secondary Volume Hits $250 billion
A bit of explicit editorializing here from your writer: With the value of private equity funds sold on the secondary market hitting $90-$100 billion in 2019 - twice the level of two years earlier and perilously close to my $120 billion outrageous prediction for last year, I'm going to up the ante considerably. My new outrageous prediction is that market volume will rise at least 150 percent to $250 billion in 2020. Even at that level, volume in private equity's secondary market would amount to only 4.3 percent of the industry's total assets of $5.8 trillion - meaning that for the second year in a row my secondary market prediction may prove a lot less outrageous than it sounds.

OP9 - GP-Led Secondary Volume Surpasses Volume for Traditional LP Stakes
Rising from approximately one third of volume in 2019, the collective transfer of private equity fund stakes from one group of investors to another (typically orchestrated by the fund's managers, hence "GP-led") rises to 51 percent, or $128 billion of 2020's total secondary market volume (see OP8). Such deals offer liquidity to investors who choose not to roll over into continuation vehicles and they frequently give fund managers a longer runway and more capital to boost final returns. Traditional LP stake sales involve the transfer of a specific investor's fund holdings; though they don't involve capital injections, they have the advantage of getting cash to buyers and sellers quickly, since they're easier to organize and investments are typically realized more rapidly.

OP10 - BlackRock Launches an AI Megafund with Record Low Fees
In December, the world's largest investment firm, BlackRock, with $7 trillion under management, announces the launch of its $30 billion Artificial Intelligence Fund. BlackRock is hoping the AI Fund can successfully adapt to private equity the same algorithm-heavy, discounted fee formula that led to the firm's runaway success in public markets. AI Fund has an annual fee of 0.25 percent with a 2.5 percent carry that kicks in once investors achieve a 6

percent net annual return. A well-known cornerstone investor (one of the world's six largest pension funds), in a move orchestrated with BlackRock's announcement, commits 30 percent of their annual private equity allocation to the fund, hoping to create a low-risk beta yardstick for investments in higher returning, more actively managed PE funds.