



Institutional Investor Profile: Giuseppe Campanella, Chief Executive Officer, State Street Global Investments

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Giuseppe Campanella on his team's focus on companies investing in and/or from Italy, on high management fees and the misalignment of LP/GP interests, and on why he is keen to invest in first-time funds.

Italy-focused fund of funds manager State Street Global Investments currently invests from its first fund of funds, the €162m Fondamenta I, which closed in 2001. Besides generating good returns, Fondamenta I aims to support the development of the Italian private equity market by supporting young teams raising their first or second funds. Part of the reason for this is that two of the main investors in the fund are bank foundations that have the set objective of contributing to the development of the Italian economy. Fondamenta I is now almost fully committed.

How many commitments has Fondamenta I made to date?

'It has committed to 14 funds and invested in two secondary transactions. Fondamenta I is 90 per cent committed to first-time funds in Italy, many of which have been raised by first-time teams. We find that when we invest with young teams, our interests are much better aligned. Many of the larger funds make too much money with management fees. We have only made three investments with teams that have previous fundraising and investment experience. All three funds are funds managed by Italian banks.

The largest proportion of new funds in Italy are managed by new teams anyway, teams that have typically worked together but in other professional fields, just not in investment.

Funds in our portfolio include Aksia group, Arca Impresa, Arca Impresa 2000 Atlantis, Cape-Natexis, Convergenza, DKBF Italy, Emerald, Giada, Industria & Finanza, Interbanca Sud, Management e Capitali, Opera, Principia, Wope. We also have a renewable energy fund in our portfolio which is a mix of a co-investment and a fund investment. The name of this fund is Atmos. We are the lead investor in Atmos. Every time Atmos finds an investment opportunity, the equity is shared: 20 per cent is underwritten by Atmos and 80 per cent is distributed among the Atmos shareholders. This means Atmos has to do fundraising for every single deal but it also gives the team great flexibility.

Our team is also managing the first Italian real estate fund focused on development projects.

How do you conduct your due diligence?

'If we are happy with the PPMs that the teams send to us, we invite them to a kick-off meeting. During this initial meeting we try to understand what motivates the team to raise a new fund and how the team works. Then the usual business and legal reviews and reference checks follow. During the process we analyse in a great deal of detail how a GP adds value to portfolio companies and how the GP's strategy matches what is going on in the markets in which they operate. Typically we meet a team no less than three times before we make our final investment decision. We ensure that we have met all the people that will deal with the fund investments.'

How many co-investments have you done to date?

'Co-investments are quite a prominent part of the portfolio that we have built with Fondamenta I. We have done 30 co-investments but the large number of deals does not mean that an equally large share of the capital of the fund is committed to co-investments. Only around €30m of the €160m has been committed to co-investments. To us, co-investments are

more than just financial investments. We use them to get a better understanding of how the GPs that we have invested with operate. That is why we prefer to do a large number of smaller co-investments.

When we make co-investments we are always very much involved in the process, which means that we follow the process step by step rather than entering it at a late stage after all the negotiations have happened.

We have one co-investment which is somewhere between a co-investment and a direct investment. The company is called Lux Vide and is a producer of fiction programmes for television. There are a number of investors but we are the only fund investor in Lux Vide. We sourced the deal ourselves, did the due diligence and negotiated the deal. However, this deal was a one-off. We do not plan to do more direct investments because we do not want them to conflict and overlap with what our funds do. We want to keep our profile as a fund of funds.'

When do you expect to launch your second fund of funds vehicle?

'The fund of funds life cycle is quite long if you compare it to a primary fund life cycle. Fondamenta, which started investing in 2001, is less than 60 per cent drawn down. About 15 per cent of our capital has been divested. Although the results to date are very good we want to wait a bit longer before we officially start fundraising for our new fund of funds. We like to sell hard facts rather than expectations.

According to the data we have got so far, we currently have 13 divestments made by seven different funds with an average gross IRR of for us of 35 per cent and a cash multiple of 2.3 times. We want to wait until we can show the market a larger number of our divestments.

We are thinking a lot about the formula for the new fund. Institutional investors in Italy are especially keen on liquidity. We are thinking about the possibility of having a listed vehicle rather than a traditional limited partnership to be able to guarantee liquidity to our investors. The new fund of funds will be officially launched at the beginning of 2007.

I would like to raise a larger fund, but not too large a fund. The target will be in the €250-300m range. The new fund should invest into a core number of funds which are already in the Fondamenta I portfolio. Out of the 16 we currently have in our portfolio, I already know at least five in which I would like to invest again and with a larger amount. I believe writing larger tickets gives us a better chance to negotiate our relationship with funds, in terms of fees and co-investment opportunities. I envisage the new fund to be more polarised - I would like to commit larger amounts to re-ups and many smaller amounts to new funds.

Fondamenta II is expected to be a bit more international. This time we are looking to attract a few international investors. The new fund might also selectively invest in funds in Central and Eastern Europe, funds that look to invest in Italian companies, and also in Italian funds that target companies in Central and Eastern Europe.'

Which developments would you like to see in the private equity industry in the future?

'I would like to see professional institutional investor organise themselves better and meet at least annually to discuss actions we can undertake to influence the private equity markets. I think of fellow LPs as partners rather than competitors. We should really do something to keep GP management fees consistent with the original private equity spirit so that all players in the market only take out profits when investments are realised.'