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## New firm brings KKR funds to smaller Canadian investors

By JACQUELINE NELSON

*Cygnus Investment Partners LP plans to offer KKR funds to investors through its own fund*

U.S. investment giant Kohlberg Kravis Roberts & Co. is betting that smaller Canadian investors want more access to private investments, and it is partnering with a new Toronto firm to test the market.

Cygnus Investment Partners LP will be KKR's distribution ally in Canada, targeting investors who typically wouldn't have enough capital to invest on their own. Cygnus will gather the investments of these smaller accredited investors and institutions and invest in KKR's asset classes, such as private equity, energy, infrastructure and real estate, through a Canadian domiciled fund.

Until recent years, global infrastructure and private equity investments were primarily restricted to large institutions, such as pension funds and sovereign wealth funds. But that's changing as individual investors with a very high net worth – a group that is growing in wealth and in numbers – seek greater exposure to alternative investments, such as global infrastructure and private equity. Other family offices, endowments and small institutions are also looking in this direction.

Large investment firms are starting to look to this lower end of the market, launching funds focused on real estate, private equity and other alternatives. The movement has gained more traction in the United States so far, where private equity firms such as Blackstone Group LP rolled out funds aimed at retail investors this year.

But large Canadian asset managers are taking note of the opportunities, as well.

Last year, Sun Life Financial Inc. launched an investment management arm to offer private market funds in debt, real estate and commercial mortgages to third-party investors, many of which are smaller pension funds. Cygnus will restrict investments to individuals with at least \$250,000 (U.S.) to invest in its fund and to institutions with \$1-million. That's out of reach for retail investors, but it is a major step down from the \$5-million to \$20-million minimums that KKR charges to invest directly. KKR has more than \$100-billion in assets under management.

"A lot of the content in the portfolios of the Canadian domiciled private equity firms is Canadian – real estate, oil and gas and infrastructure," said Dan Geraci, managing partner

at Cygnus. "It's not as diversified. And so much of what's going on in the world of private equity is happening offshore right now."

Each year Cygnus will launch one new fund for its clients that will act as a catch-all for whatever KKR brings to market. "They always have a fair number of funds on the conveyor belt every year, and they're starting to make them larger," Mr. Geraci said. Cygnus will work solely with KKR and won't be branching out to offer other companies' funds.

For KKR, which opened an investment office in Calgary last year to focus on energy, the plans to expand in Canada come at a time when the firm is looking at more opportunities to bring its strategies to new investors. Cygnus's founding partners saw that KKR was exploring its distribution options, while experimenting in the United States with some intermediaries, and set out to bring the strategy to Canada.

"We believe alternative investments offer strong performance and diversification for an investor's portfolio, generally, and Canada is an important market for our expansion. We are pleased to be starting this new partnership with Cygnus," Mike Gavisar, managing director at KKR, said in a statement.

The Cygnus and KKR partnership is spearheaded by four managing partners who had been looking for opportunities to start a new asset management business in Canada. Along with Mr. Geraci, the partners include Dennis Dewan, Jonathan Turk and Wayne Fox, formerly chairman of TMX Group Inc. and president of CIBC World Markets.

The group most recently made waves when it attempted to resurrect the E.F. Hutton brand a couple of years ago by creating a new brokerage that capitalized on the goodwill left toward an old name. But the effort quietly fizzled last year.

Cygnus has also partnered with other firms for services, such as record-keeping and the online client portal. It will charge a wrap fee for providing access to KKR, servicing and looking after the investments.

Cygnus's client are making multiyear commitments to the KKR funds and could be subject to capital calls, like other private equity investors.

Cygnus isn't sure exactly what the market appetite for this will be, but Mr. Geraci thinks the move will encourage some investors toward private equity for the first time. And he thinks the alternative investment landscape in Canada will continue to evolve.

"If the competition out there decides to meet us on this strategy, we think that's great because we think it's the best thing for the end investor, to have the opportunity to access product like this at lower minimums."

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