

Non-flagship funds on the rise

Dyal Capital Partners: Best Growth Manager

Large private equity managers have seen their non-flagship funds represent a greater portion of their assets as they sought to expand their offerings to meet investor demands.

“When the pandemic hit and in-person fundraising came to a halt, established managers were able to continue their capital raising in a virtual environment by leveraging existing investor relationships,” Michael Rees, managing director and head of Dyal Capital Partners, explains. “Investors’ risk appetite for allocating capital to less established managers dwindled, ultimately leading the largest and well-established firms to gather a greater share of capital.”

In this environment, large institutional managers have been broadening their range of strategies and launching non-flagship funds adjacent to their main funds. “As a result, non-flagship funds increasingly represent a more significant percentage of total capital raised. For the top 10 GPs, more than 50 percent of total fundraising is now coming from non-flagship funds. While these non-flagship strategies may differ from their flagship funds, established firms are utilising their long-standing client relationships and high quality infrastructures to capitalise on a complementary strategy within their respective market,” Rees outlines.

Dyal experienced these trends first-hand. While the firm continues to be a leader in minority equity stakes, it aims to be the capital solutions provider for the alternatives industry. Rees underscores: “By leveraging our sector expertise of investing in established alternative managers, we’ve spent part of last year focused on our long-term financing solutions that complement our existing equity stakes business.

“Not only has this allowed us to be more creative in structuring long-term partnerships, but managers can work with a capital solutions provider they know and trust.”

In view of these developments, GPs need a variety of capital solutions which allow them to grow their business. “While the influx of capital to private markets has been a boon for the industry, the demand by investors to maintain alignment has left PE managers unable to keep up with growing GP commitment amounts. Key to overcoming this challenge will be access to tailored capital solutions



that provide efficient financing to align with business, structural, and tax objectives of the manager,” Rees advises.

The industry has also seen an increasing awareness of how environmental, social, and governance issues impact on long-term performance. In light of the growing demand on behalf of LPs as well as Dyal’s Partner Managers, the firm has spent the last year expanding its ESG focus during the underwriting phase. Rees elaborates: “ESG is now an integral part of our investment process. Alongside this,

we’ve continued to expand the strategic support that our Business Services Platform provides in helping our partners design and implement their own ESG programme.

“By formalising our approach during the underwriting phase and expanding our efforts during the partnership phase, we have made ESG a reflex for our firm, not just an initiative.”

The firm aims to keep on partnering with managers who want to add to their success and continue to be leaders in their space. “For us to do this, we’re focused on continuing to find ways to better serve prospective and existing partner managers,” Rees emphasises. ■

Michael Rees Head of Dyal Capital Partners

Michael Rees is a Co-Founder and Co-President of Blue Owl, a member of the firm’s Executive Committee and a member of the firm’s board of directors. Michael also serves as the Head of Dyal Capital. Prior to founding Dyal, Michael was a founding employee and shareholder of Neuberger Berman Group, transitioning from Lehman Brothers as part of the management buyout transaction in May 2009, and was the first Chief Operating Officer of the NB Alternatives business following the founding. He had numerous roles at Lehman Brothers (2001 – 2009) and was responsible for strategic acquisitions for the Investment Management Division there. From 2003 through 2006, he was Head of Asset Management Strategy. Prior to Lehman Brothers, he was an associate at Marakon Associates. Michael received a BS in Mechanical Engineering and a BA in Political Science from the University of Pittsburgh. He received a Master’s in Mechanical Engineering and a Master’s in Technology Policy from Massachusetts Institute of Technology. He currently serves on the Board of Directors of The Opportunity Network, a non-profit that supports underserved students with postsecondary and career readiness education.