Happy Returns
Amid the dazzling success of global private markets firm Partners Group, cofounder Marcel Erni, ’91, has kept his eyes on what truly matters—friendship and fulfillment.
From a tiny office in a quiet Alpine town, Marcel Erni, ’91, and two close friends started Switzerland-based Partners Group in search of something far more elusive than wealth or success—true happiness. Amid the firm’s inexorable rise and stellar performance, Erni remains focused on what matters most.

BY HOWARD R. GOLD
PHOTOGRAPHY BY VERENA MÜLLER
private equity has been one of the biggest success stories in finance over the past decade. While traditional investment-management firms struggle against a tidal wave of passive investing and Wall Street banks navigate treacherous trading environments, private equity has posted returns consistently above those from public markets, according to a study by Gregory Brown of the University of North Carolina at Chapel Hill and Steve Kaplan, the Neuber Family Distinguished Service Professor of Entrepreneurship and Finance and the Kesselin E. F. Faculty Director at the Polsky Center for Entrepreneurship and Innovation.

Most people associate private equity with the industry’s headline-grabbing US power players: KKR, Blackstone, and Carlyle. Together those three US-based private equity firms manage nearly $1 trillion in assets out of around $3.4 trillion in total assets under management by all private equity firms as of June 2018, according to Preqin Global.

But one of the most successful private equity firms is low-profile Partner Group, located far from major financial centers in the majestic serenity of the Swiss Alps in the lakeside town of Zug, population 30,000.

Founded in 1996 by three Swiss friends who worked at the Goldman Sachs Group in Zurich—Alfred “Fredy” Gantner, Urs Wietlisbach, and Marcel Erni—Partner Group evolved from modest beginnings (“no money, no clients, no clue,” Erni told Harvard Business School for a case study), in a tiny office using desks from IKEA, to become the world’s 21st largest private equity firm, according to Private Equity International. The three partners, whose dual mottoes were “clients first” and “and make it happen,” scraped together 150 million Swiss francs for their first growth buyout fund. Partner Group now manages $9 billion of client assets and has 20 offices worldwide. It has just opened a new North American headquarters in Denver, where it plans to hire up to 500 people and to make inroads into the much bigger US market.

On Starting His Own Firm and Finding a Good Career Decision to Stay

Partner Group’s formula—invest directly in middle-market companies, help them to grow internationally, and spend many, many hours adding value through hands-on management—has resulted in a five-year return of 28 percent annually, including dividends, Bloomberg reported in early 2018. Since the firm’s March 2006 listing on the Swiss stock exchange, its shares have soared more than 2,200 percent, substantially outperforming its better-known private equity peers. Erni, whose holdings in Partner Group give him a net worth of $2.7 billion, according to Forbes, remains a partner and a member of the board of directors.

Quiet but genial, Erni tells Chicago Booth Magazine that the goal he, Gantner, and Wietlisbach had in founding Partner Group was not to be on top of the heap, “to own franchises, really, that I need to create my own environment to be truly happy,” he said, in the first extended interview he’s given for any publication. “The idea was simply to create a business that we do, two companies that we invest in with our first fund 20 years ago are still listed on the Swiss Exchange and growing their business. That makes me a bit proud. The remaining 20 to 30 percent of what we do are secondary investments, where we buy existing stakes in companies or funds.

On Why Partners Group Went Public

For Erni, 54, who earned a bachelor’s degree and a PhD in banking and finance from the University of St. Gallen (HSG) in Switzerland and also worked at McKinsey & Company after getting his MBA, Booth was a formative experience.

It wasn’t just the school’s world-famous academics (he was taking a finance class from the late Morton Miller when Miller won the Nobel Prize in Economic Sciences), but the whole experience of getting scalped tickets to Blackhawks hockey games to spending contemplative afternoons with Monet paintings at the Art Institute, his experiences gave this young man from the Swiss countryside a whole new perspective on business and life. “Maybe the soft skills that I learned in Chicago mattered more later in the job than the hard facts,” he said.

But most important of all were the friends he made at Booth. “You need to care about people and that will lead to something good, again, to happiness—having good friends in life, no matter where they come from,” he said.

ON STARTING HIS OWN FIRM AND FINDING ITS NICHE

McKinsey and Goldman were really great training grounds. I learned a lot, but I just didn’t see that I was very happy doing the good career decision to stay.

I came to the conclusion that I needed to create my own environment to be truly happy. Ideally, I thought it with friends, Fredy and Urs, at Goldman in Zurich. We essentially said, “listen, why don’t we do something ourselves?” The idea was really the three of us, maybe an analyst or two, an assistant, one or two deals per year, and then going skiing and being happy.

This was really our vision. This is why we wanted to start this.

Then, of course, once you have that, it’s about good deal making, structuring, deal tactics. Once we have a deal with a company, the next question is, are you a good owner and manager? Choosing board members, selecting the management team, developing your operational plans, setting the strategic direction; that’s the next level.

On top of this, you need to have an entrepreneurial, transformational idea. What could that business look like? What do you want to change? What would ‘great’ look like? That’s where you need experience and creativity. There is a lot of art that comes into it. At the end of the day, in my experience, that’s where 40 percent of the effort goes in, but this entrepreneurial contribution will drive 70 or 80 percent of the outperformance that may come from the investment.

Private equity is not quantum physics, by the way. It’s not that complicated. The maximum that you’ll do is add, subtract, multiply, divide. But of course, you need to be analytical, competent, and experienced and have good judgment.

On What Makes a Good Private Equity Investment

[When you’re looking to invest,] I think it’s not a question of only looking at the company. You need to take it to a higher level. Most people will say, “It needs to have solid financials, leading market position, attractive growth, margins, good management, and all that,” right? But actually you can also make money from things that are not run well or are out of favor if you have the resources and experience to make them better.

I think that you need to look at it from various angles. Is it the right relative value? If this deal is in Spain, how does it stack up with a growth case in India? The first step is working on the right theme. This is what the big firms are actually good at—the right sector, the right time, the right valuation, the right capital structure, rate of return. We’ve not even talking about the assets yet. That’s the first level of what makes a good investment.

Extended excerpts from the interview with Erni immediately after:
Our business model is pretty straightforward, easy to understand, kind of boring. At the end of the day, the only thing that matters is to create value for our clients, build our team and people, and everything else will take care of itself over time. That’s what investors really like, how predictable we are—like a Swiss clock.

ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

We do real due diligence on these issues and have concrete ideas about what we want to improve. We created 13,600 jobs across our direct portfolio last year. We avoided more than 870,000 metric tons of CO₂ emissions. If the investment is lagging in that area, you can go in and really make improvements because you have the management control and you have your people in there with a plan who really know what they’re doing.

We are not doing [ESG investing] with a political or ideological agenda. For me, this is just good business practice. It’s the right thing to do, but I don’t need any special label attached to that. This is what we’ve always been doing, what we should strive to be proud of.

ON PARTNERS GROUP’S US EXPANSION

America is America. It’s a great country, a great economy with plenty of opportunity and plenty of great entrepreneurs. If you have to ask, “Where would you like to be down the road?” I think we should have a third of our clients in the United States and maybe 30, 40, or 50 percent of our investments in the United States over time. If you look at global GDP, it’s roughly a third America, a third Europe, and a third Asia. We are a global firm, so we move where the opportunities are.

As a global firm, especially for companies that want to have an international leg to their expansion, we can say, “Listen, here are the 10 contacts we can make for you in Italy. Here are the five we can do for your business in China. Here are the three that we can do in Brazil.” We know how to take the business global and we can be a good equity partner for many of those great American firms.

Denver is really a great location. We wanted to have the same vista with the mountains and nature around. You can have a real life with your family. You can do sports. You can go skiing. For us, if you have a little less noise in Switzerland and Denver than you have in New York and London.

ON PRIVATE EQUITY’S FUTURE AS FUNDS RAISE RECORD AMOUNTS OF MONEY

I think you could have gone to any private equity conference for the past 20 years where people would say, “There’s too much money in the industry.” But private equity compared to public markets is still a cottage industry. It’s nothing. Private equity is the better owner, has a better governance model for most companies, be they private or public. I think private equity will grow 5-10 times from here over the next 20 years, although not in a straight line.

Having said that, there is, of course, too much money in the industry in the sense that I would like to have way less people active in the business. But that will take care of itself over time. In the end, the private markets model is a very healthy one, because if you’re not delivering good risk-adjusted returns, you’re not going to raise the funds.

ON HIS EXPERIENCES AT CHICAGO

If you read the interviews in Chicago Booth Magazine, mostly it’s about the academic rigor, and I absolutely get that. But for me, the biggest benefit of being in Chicago was you had to prove yourself in a different language, in a different school system, and in a different culture. You thought you were a superstar in Switzerland, and then you came to Chicago and people were way better in mathematics than you. At the beginning, it was hard. You had to work hard, but you figured it out.

Today, I still remember many classes I took. I was in Merton Miller’s class when he got the news of the Nobel Prize. Or Steve Kaplan’s class—today, almost 30 years later, I remember it like it was yesterday. One time, we were in a Saturday class with James Scharger (clinical professor of entrepreneurship and strategic management). Our group did a project on importing fancy condoms from Europe to the United States. That was our business plan, and we thought we were pretty clever. I think we even got a good grade. We learned a lot of substance, but also good teamwork, working under pressure, how to pitch in English. Maybe the soft skills that I learned in Chicago mattered more later on in the job than the hard facts. I still really like the analytical staff in private equity, you don’t need it. Honestly.

The other great aspect is making real friends for life, like Mark Goldstein, ’91, who lives in Chicago; Eric Strutz, ’91, who today sits on our board; and Peer Schatz, ’91. The other thing is that as a foreigner, I just loved the Chicago experience, coming from the Swiss countryside and mountains. I liked the roughness of the city, the wind chill in the winter, Michael Jordan, Mike Ditka, and the Chicago Bears. For us, it was our business plan, and we thought we were pretty clever. I think we even got a good grade. We learned a lot of substance, but also good teamwork, working under pressure, how to pitch in English. Maybe the soft skills that I learned in Chicago mattered more later on in the job than the hard facts. I still really like the analytical staff in private equity, you don’t need it. Honestly.

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We were studying, but we also did a little bit of partying. Our place was called Excalibur, and in the morning we would get breakfast at Tempo’s—really work hard, play hard, and do it as friends.

I love art. So I took a class once a week downtown before there was a Gleacher Center. I always did two things: I went to the food court at Saks on Michigan Avenue to have a burger and I went to the Art Institute of Chicago. I remember one of my most memorable art moments was when they had the Monet show. It was 20 minutes before closing and I was alone with a room full of Monet haystacks. Priceless.

If you haven’t seen the Seurat (“A Sunday on La Grande Jatte” at the Art Institute, you haven’t been to Chicago.

ON HIS LIFE ADVICE FOR BOOTH MBAS

It’s not always about being rigorous and quantitative. There’s another dimension of going to Booth, which is the Chicago experience, being with friends, finding yourself. That’s the long-term point, I think. My advice to students is: stick with a few people that you really care about. The goal is not to have 1,000 friends on Facebook. You will have a maximum of five friends after 40 that you can keep up with and care about. Those will be friends for life—not for business, friends for life. You need to care about people and that will lead to something good, not fear, again, to happiness. Early in your career, try to find out who you are, what you like to do, what makes you really happy in life. If you’re happy, you will be doing things well, and that will lead to a career of sorts. There’s no point in doing something in life that makes you miserable.