

Buyouts

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NEWS & ANALYSIS

The secret source for mid-market investing

By Ben Russell, Partners Group

Trying to pick the next winner has never been easy. This holds especially true in the current market environment where it's proving increasingly difficult to assess how macro-volatility could affect different sectors and sub-sectors of the economy. This is why following a thematic approach that looks to invest through economic cycles has never been more important for mid-market managers.

What do we mean by thematic investing? Many investors would argue they already invest thematically: they pick a growth sector, such as technology, and then acquire a target company with strong fundamentals at a good price. But there is more to it than that.

The most rigorous approach often involves starting with an overarching (or what we call "giga") theme and then digging into the underlying transformative trends that are driving structural growth in a particular area. This type of second order thinking can provide investors with similar growth exposure to companies in the top layer, but in less crowded market niches and with lower risk profiles.

For example, at Partners Group, we follow three giga themes: Digitization, Decarbonization, and New Living, which shape the landscape of the investment opportunities we uncover. Then, we identify and follow 40 to 60 underlying trends across our global industry verticals that benefit from these themes. Once



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we have acquired a company that meets our thematic criteria, we deploy an entrepreneurial mindset that drives business transformation and creates long-term value.

New Living - thematic investing in practice

Our recent acquisition of Foundation Risk Partners (FRP), a specialist insurance broker, is a good example of our thematic approach in practice.

We had been tracking the insurance brokerage market through our New Living giga theme, which focuses on the ways businesses and individuals are living and consuming. A trend within this theme is the customization of finance products,

including insurance. We found that growing demand for bespoke offerings is increasing the need for value-add brokers that can advise and help clients evaluate risks and secure appropriate coverage. FRP and its value proposition to businesses and private individuals navigating the complex US insurance landscape checked the boxes on our investment thesis, and we were able to announce the acquisition in August.

This second-order thinking can be seen in other trends we are analyzing within New Living. Our research suggests that an aging population is leading to an increased awareness of skin health and the importance of preventative care. Digging deeper, we saw significant growth potential in the outpatient and specialty care segment of dermatology, which led to our acquisition of Forefront Dermatology in April.

For Partners Group, a key ingredient for successfully targeting investments in the mid-market has included the deployment of a rigorous thematic investing approach. As recent acquisitions have shown, second order thinking can go a long way to identifying sectors and assets with sticky demand, above-average growth rates, and market resilience – all of which are critical factors in today's volatile environment.

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