New Mountain closes buyout fund

by David Carey

Wrapping up a wildly popular fundraising, New Mountain Capital LLC, a 5-year-old middle-market private equity firm led by ex-Forstmann Little & Co. partner Steven Klinsky, capped out its second investment fund at $1.55 billion, Klinsky told The Daily Deal.

But the fund could have been 3 times that size if institutional investors had had their way, according to John Robertshaw, a Credit Suisse First Boston managing director who helped raise New Mountain Partners II LP.

"It was unbelievable. We're talking about $4 billion-plus in demand," said Robertshaw, explaining that marketing was easy given the Midas-like reputation New Mountain has developed.

Indeed, New Mountain's first, $770 million fund, raised in 2000 and 2001, sports an annual compound internal rate of return of 28.2% through June 30, according to the California Public Employees' Retirement System, the country's biggest public pension fund.

That ranked first among the 17 private equity funds raised in 2000 to which CalPERS pledged at least $100 million. The IRR outshines those of larger pools raised by such mainstays of the buyout world as Texas Pacific Group (18%), Carlyle Group (18%), Hellman & Friedman LLC (9.9%) and Welsh, Carson, Anderson & Stowe (4.6%).

In addition to CalPERS, the second fund's investors include the General Electric Pension Trust and the Massachusetts Institute of Technology's endowment.

One investor grateful to have been invited into the fold is Erik Hirsch, chief investment officer at Hamilton Lane Advisors, a pension fund consultant and fund manager.

"We put New Mountain in what we call the large buyout market," Hirsch said. "That's above the traditional middle-market firms [in size] and comfortably below the megafunds. There is a small group of elite fund managers in that space, and Klinsky and New Mountain are one of them. They're at the top of their game."

To maintain its track record, New Mountain cut off fundraising at $1.5 billion, Klinsky said. "We're able to invest comfortably and in a high-quality way at this size. We didn't want to get bigger for the sake of getting bigger."

In its short life, New Mountain has proved adept at choosing top-grade companies in high-growth sectors. Often, it eschews layering debt into its deal structures if that would stunt a company's growth, Klinsky said.

New Mountain has had no losing investments.

"We don't think private equity means you buy a tin can company, put nine parts debt to one part equity on it and try to squeeze out a return from financial engineering," he said. Instead, New Mountain seeks out what he calls low-risk, "defensive growth" situations with a wealth of upside potential.

Another of the firm's hallmarks, Hirsch said, is to build a small, concentrated portfolio of holdings and "really work them."

Early on, New Mountain scored big on a $115 million private investment in public equity in Strayer Education Inc., a Washington-based operator of post-secondary schools for adults. New Mountain's investment, which Strayer used to add campuses and boost enrollment, produced a roughly fivefold return.

Another huge winner has been National Medical Health Card Systems Inc. New Mountain injected $80 million of growth capital in the publicly traded, prescription drug benefits manager in March. Its stake has more than doubled in value in the nine months since.

New Mountain owns controlling stakes in three other companies: Apptis Inc., a provider of information technology services to the federal government; Overland Solutions Inc., which performs audits and property surveys for insurance companies; and Surgis Inc., which operates surgery centers.

According to Klinsky, New Mountain seeks promising sectors in which to invest, but he declined to say which industries he and his eight partners are scoping out.

The new fund will charge investors an annual management fee equal to 2% of committed capital. New Mountain will earn a 20% carried interest, if, that is, it succeeds in delivering an 8% preferred return to its limited partners. ■

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