Private Equity International

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**NEWS & ANALYSIS**

# Why this GP stakes firm is 'the antithesis of the PE approach'

Permanent capital specialist Kudu Investment Management owns stakes in at least nine alternative asset managers, including private equity, private credit and venture capital.

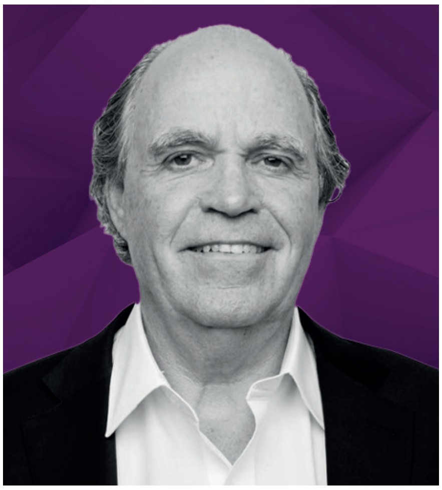
GP stakes firms – which once occupied but a narrow corner of the private equity universe – are rapidly proliferating.

Funds dedicated to the strategy now attract billions of dollars. Case in point: Hunter Point Capital, a comparatively recent entrant to this space, has raised at least $2.66 billion for its debut offering, according to US Securities and Exchange Commission filings this week.

The market has grown to at least a dozen central firms. So numerous have these strategies become that setting one GP stakes player apart from another can be a challenge. It is for this reason that Private Equity International this month created a guide on how some of the major firms in GP stakes differentiate their capital and offerings.

Kudu Investment Management, however, is one of the industry's more distinctive players. That's because, unlike most of its GP stakes peers, Kudu no longer invests through funds.

The New York-headquartered firm was co-founded in 2015 by managing partner Charlie Ruffel and partner Nick Platt, who previously led financial publisher Asset International – best known for its Chief Investment Officer magazine – as chief executive and chief operating officer, respectively. They were joined as co-founders by managing partner Rob Jakacki, who is also Kudu's chief executive and chief investment officer; and partner Gavin McLeod, who were previously CIO and finance director of US capital provider Asset Management Finance.



Charlie Ruffel, Co-founder, Kudu IM

Kudu began life as a third-party manager, raising approximately $140 million in a fund structure from Australian investment manager Challenger. This vehicle backed two public equities managers, one of which has since been exited.

In 2018, Kudu moved to a different capital structure and closed a $250 million investment from funds managed by Oaktree Capital Management and White Mountains Insurance Group. White Mountains acquired Oaktree's interests in 2019 and was joined as an equity owner in 2022 by MassMutual.

Today, the firm owns minority stakes in at least 19 asset and wealth managers across North America, Europe and Australia, of which nine are active in private markets. These include impact investment firm Creation Investments; private credit and growth equity firm Escalate Capital Partners; and European special sits manager Warwick Capital.

PEI recently caught up with executive chairman and managing partner Ruffel to discuss the firm's novel approach to this burgeoning strategy.

### What sets Kudu apart from its ever-expanding peer group?

We have permanent capital – we're an operating company, not a fund. So when we say to a prospective partner firm that we are equipped to be a permanent capital partner, we don't have to, quite frankly, give them some song and dance about how we're going to extend the fund life or… our ability to essentially force liquidity events on them.

Our capital comes from an insurance holding company, primarily from [White Mountains]. And White Mountains is like a mini-Berkshire Hathaway. It just simply allows us – when we talk about our capital – to pretty much differentiate ourselves from everybody else, because most of the people we compete with in one shape or another have raised funds.

I think the next differentiator is where we choose to compete, because we don't do the mega-deals that Dyal and Petershill do. We're generally writing cheques somewhere between $50 million and $100 million. We very rarely see these larger players that have raised huge sums of money and need to deploy it in our space. We're just not playing in the high-altitude, high-octane world.

**An operating company is a very different kind of model to that of private equity. Is there ever any hesitance on the part of GPs who think you may not have the best understanding of what it takes to raise and manage a fund?**

The reality is we operate, in every shape and form, in a way that's completely understandable to them. We've just been lucky enough to get permanent capital, and that actually frees us from the tyranny of having to continually raise capital ourselves, so we can actually be better partners for our firm.

We started off as a fund to do our first handful of investments, so we understand that whole world – it's just suboptimal, in our view. Whether it's a private equity or private credit or even a long-only manager, if you can really constitute yourself as a permanent partner and not to have to force some sort of liquidity event on them except at their own choosing, you're a better partner. Period.

**What do you look for in a potential GP target?**

We see a million different asset managers. The luxury of being in this space is we see a lot, and – like most businesses – you have to kiss a lot of frogs. But the short answer to your question is what matters to us first and foremost is the integrity. And that's what we do: we find management teams and back them. We're relatively indifferent as to the type of manager they are.

Obviously, a really interesting place to invest right now is in the alternatives space, and particularly in locked-up funds like private equity, private credit and private real estate. And that tends to be where we have focused our attention and where most of our deals have been. But at the end of the day, we're trying to find a management team with a proven track record of adding value to their clients, whether it's institutional [or] retail.

**How do you ensure alignment without a fund model?**

We want to get our rewards – effectively, our dividends – from the same streams as they do, so that's both carry and management fee. We tend to do revenue shares… [that involve] bottom-line as well as top-line… because part of our promise to our investors is a yield component, and the top-line revenue share gives us most visibility into that yield component.

We have quite a lot of structure in some of our deals, including ratchets, where they choose certain milestones or the stake dials down. But at the end of the day, what we're trying to create is alignment between ourselves and the management team. If we can do that, then we've done a good deal.

We're very light on corporate governance, deliberately: we don't sit on boards; we don't get involved in the day-to-day and running of their businesses. In many ways, we're the antithesis of a private equity approach. We want to be a value-added partner, and there are many ways we can be, but it's always at the behest of the companies we invest in. We're not trying to fix anything – none of these are science projects for us.

**Do you have an exit strategy?**

We have some of the attributes of a private equity firm, but we don't have the disadvantages that [the] structure imposes upon our outcome. And our own success is not predicated on our ability to sell any partners in our portfolio. We've had sales… generally they're selling it to a strategic, and one's gone public.

**You have some international GPs in your portfolio. Do you have any plans to expand overseas?**

We thought about whether we should open an office in Europe or even Australia – that might happen, but it's not tomorrow. Australia is a great place to do business and a really fun place to be. And, maybe most important of all, we have an absolutely terrific portfolio company in Australia called Channel Capital. And Channel is itself a multi-boutique player that has extraordinary potential.