Buyouts

FIVE QUESTIONS WITH: William Spiegel, founding partner and managing director, Pine Brook

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1. What's your thinking at Pine Brook around deal-making in the financial sector as it faces an evolving regulatory environment?

The big issue is the lack of lending by or the shrinking of the big banks, particularly in loans to small businesses and non-prime consumers. These trends are arising because of the re-regulation of the banking system in response to the financial crisis. One reason we haven't had a stronger recovery is because of the lack of capital available to these constituencies.

2. So you're seeing that as a chance to do deals?

It's creating really interesting opportunities for private equity firms. More lending will end up in the non-banking system. There's a need for a lot of specialty finance companies to be formed to provide credit to individuals, student lending, commercial real estate, mortgages and others. The numbers are staggering. There may be a need for about $150 billion to $300 billion over the next five years in new equity to replace the decrease in bank lending. We're spending a lot of time there.

3. What was your role in Pine Brook's decision to invest in speciality insurance company Fidelis Insurance Holdings Ltd?

I have backed **Richard Brindle**, group CEO of Fidelis, and **Neil McConachie**, group CFO of Fidelis, when they built **Lancashire Holdings** from a startup to a London Stock Exchange-listed $2.4 billion market cap company. When they left Lancashire, we started to discuss ways to work together. We concluded there was a more creative insurance model that we could put in place and so we started working together in July of 2014 to put the bones together around Fidelis. (Fidelis has $1.5 billion in backing, including $650 million from Pine Brook, **Crestivew Partners**, **CVC Capital** and **Goldman Sachs** and its network of high net worth individuals.)

4. Fidelis CEO Brindle said traditional insurance models have "failed to optimize shareholder returns" and Fidelis offers a stronger template for the industry that he hopes others may follow. Any other unique characteristics of Fidelis?

Fidelis will focus on growing book value per share. It'll do that by focusing on both the investment return and the underwriting return, as opposed to most insurance companies, which focus on one or the other. The Fidelis model is similar to the one used by **Berkshire Hathaway**.

5. Fidelis will keep up to 90 percent of its money invested in hedge funds when it's not using it for any underwriting. What are the advantages of doing this and will the money be safe?

We picked a portfolio of equity managers with uncorrelated strategies and with very good risk-adjusted returns, which should outperform the typical insurance company portfolio of short-dated bonds. Goldman Sachs's Alternative Investments & Manager Selection (AIMS) unit helped us design a portfolio of separate accounts, which will allow Fidelis to access its capital should it need to pay insurance claims.

Edited by Steve Gelsi