

Pine Brook Goes Back to the Future with New Fund



04/07/09 Pine Brook Road Partners LLC, which just closed its first fund at \$1.43 billion after two years in the market, has a unique take on the credit crunch – it actually helped its fund-raising.

Pine Brook Capital Partners LP, which came in just under its \$1.5 billion target, began raising money in 2007 and held a first close on \$826 million in December 2007. President and Chief Executive Howard Newman said the process wasn't easy at first, as it was raising the fund at a time "when the world was mega buyouts." Pine Brook's model is quite different, and explaining it to LPs proved difficult.

Its plan is to deploy \$100 million to \$200 million per deal in the energy and financial services sectors, using a "line of equity" investment structure without any leverage initially, infusing capital in stages, rather than upfront, into companies that the firm launches.

As an example, last year New York-based Pine Brook formed a joint venture with publicly traded Australian oil and gas producer Comet Ridge Ltd., pledging up to \$100 million to the venture. Pine Brook infused \$9 million up front, including \$7 million in cash and \$2 million of assets it recently acquired from Perth-based oil and gas company Strike Oil Ltd.

"It resembles the model around which private equity was based 20 years ago," Newman said. "It was back to the future, in many ways."

As the credit crunch kicked in and leverage fell out of favor, Pine Brook attracted more interest. Now, the fund has about 40 institutional investors, according to Newman. Among their number are Kansas Public Employees Retirement System and New York State Teachers' Retirement System, which committed \$20 million and \$75 million to the fund, respectively.

The firm has done nine investments out of the fund, deploying around \$250 million of capital thus far. Newman expects that figure to reach \$500 million or \$750 million by the time the firm is done deploying its line of capital to those nine companies. He said the firm's model allows the firm to assess how its investments are doing as time passes, making sure its investment hypothesis is still accurate before it injects additional capital.

The firm expects to close a couple more investments this year. It typically does three investments a year, a pace Newman doesn't think will change.

The fund is managed by a team of eight managing principals led by Newman and including Arnold Chavkin, Joseph Gantz, Robert Jackowitz, Craig Jarchow and Michael McMahon. Co-

Founder Robert Glanville and Managing Director William Spiegel will focus on investments in the financial services sector.

Newman comes from a long career at Warburg Pincus LLC, where he worked from 1984 to 2006 and was most recently vice chairman and senior adviser. During his time there, he led the firm's energy, financial services, media, real estate and general investment practices.

Among Pine Brook's investments are start-up oil and gas exploration and production companies Common Resources LLC and Stonegate Production Co.; Aurigen Re Capital Ltd., a start-up life reinsurer; and Narragansett Bay Insurance Co., a homeowner's insurance company.

Pine Brook received legal advice from Covington and Burling LLP. Lazard Freres & Co. served as placement agent.