

## ACS TO SPIN OFF HOLDINGS INTO \$1B FUND

HARBOURVEST, LEXINGTON INVEST FOR 30% OF LINGER'S ASSET STAKES

BY KELLY HOLMAN

**PRIVATE EQUITY American Capital Strategies Ltd.** said Wednesday that it has raised \$1 billion for a fund that will acquire \$670 million of ACS' current equity holdings, shifting those assets off its balance sheet and helping it achieve a goal of expanding its asset management business.

The announcement came a day after **Tricor Pacific Capital Inc.** said it had closed its fourth limited partnership at \$556 million, exceeding an initial \$460 million target.

Boston's **HarbourVest Partners LLC, Lexington Partners Inc.** of New York and Zug, Switzerland's **Partners Group** are the lead investors in ASC's new American Capital Equity I LLC.

The fund is acquiring 30% of ACS' equity holdings in 96 portfolio companies, which represent "virtually all" of ACS' equity investments, the company said, other than stakes held by managed funds and structured finance entities and warrants.

The \$330 million of undrawn commitments for the fund will be used to take 30% stakes in future ACS equity investments.

"We're originating the assets on our balance sheet and syndicating them out to three huge investors," ACS chairman and CEO Malon Wilkus said in an interview. He said the transaction would raise ACS' return on equity.

ACS launched marketing efforts five months ago for the new fund. It carries a 2% annual management fee, and thus will generate \$20 mil-

lion annually in fees for ACS when the fund is fully invested. ACS will retain a 10% to 30% carried interest in gains on the holdings.

It is the first time in the company's nine-year history that it has raised capital via a limited partnership structure, according to Wilkus.

Bethesda, Md.-based ACS provides senior and mezzanine debt to mid-sized businesses, and has deployed \$6 billion of debt and equity capital during the last six months. On average, those businesses have \$110 million of sales and \$20 million of Ebitda, Wilkus said.

ACS has been moving to expand its asset management business.

### The fund will generate \$20 million annually in fees for ACS.

"We are rolling out a series of funds that will invest in private companies, thereby creating a mutual fund group that will be the first U.S. publicly traded fund of U.S. assets," said Wilkus. The company plans funds targeting specific regions and industries such as energy, technology and financial services, he said.

**Kirkland & Ellis LLP** partners Bruce Ettelson, Sarah Kirson, Michael Belsley, Don Rocap and associate Warren Goodworth were fund-formation counsel to ACS.

A **Debevoise & Plimpton LLP** team led by partner Stephen Hertz

with partner David Schwartz and associates Jason Elfenbein, Chandra Mitchell and Kristen Gudewicz advised HarbourVest.

Separately, Vancouver, British Columbia-based Tricor said that U.S. and Canadian pension funds and financial institutions had invested in its latest fund, and that virtually all of the limited partners from its \$235 million third fund invested this time as well.

The 10-year-old firm, which also has an office in Lake Forest, Ill., specializes in companies that straddle the 49th parallel.

"We try to find companies that are doing business in Canada and help them grow into the U.S. and vice versa," said Tricor managing director David Rowntree.

The fund will invest \$10 million to \$50 million of equity in stable middle-market companies valued between \$25 million and \$250 million. It will invest in industrial, manufacturing and consumer product companies in the western and midwestern regions of Canada and the U.S.

Tricor began marketing its new fund in February with assistance from **Lazard** bankers Tim O'Gara, Ben Sullivan and Andrew Curry. Kirkland & Ellis' Ettelson and **Blake Cassels & Graydon LLP** partner Anne Stewart were fund-formation counsel.

Tricor has generated a 39% gross IRR over the life of its funds, representing a return of 3 times its invested capital, the firm said. ■



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