**Exeter Student Investment Fund Guest Lecture Series... Tim Franks (KKR)**

*This Guest Lecture series was an interview between ExSIF member and former portfolio manager Christian Rowell and Tim Franks, a partner at the major Private Equity Firm KKR. These notes are deliberately left in a conversational format.*

About Tim...

Tim is a partner at KKR leading the UK & Ireland, as well as the EMEA Consumer team. He is a member of the European Private Equity Investment Committee, the European Portfolio Management Committee and the Global Impact Fund Committee. I also look after the longer-term Core investment strategy for the firm in Europe. He’s also led or been involved in KKR's investments in ERM, Citation, Wella, Coty, Roompot, Viridor, Upfield/Violife, The Hut Group, Webhelp and Afriflora. His particular interests are in sustainability and technology.

How how much has KKR and the private equity industry changed as a whole?

* I initially joined a group with a billion-dollar funds for their global team and we were doing investments of equity of like $30 million, $40 million, $50 million so assets under management at the time were 3 billion. Now just think of where I am now, I mean we have assets into management approaching 500 billion and is this is a completely different ball game I mean the private asset class has grown and I think overtime it will become way more important compared to the public asset class and because the private asset classes can now start to be traded freely as well, it's no longer just a long-term investment strategy. You can come in and out of them so just the sheer scale and different the types of people that get that get recruited into private equity firms is now completely different because you have before it was just a private equity firm which is just buying companies or investing companies. Now its venture capital, infrastructure funds, real estate funds, private equity funds, impact funds, long term growth, healthcare, tech funds.
* We have an operational team that goes into companies and tries to help to two got to to improve them we have a macro team who helped to give advice we have an ESG team who tried to help our companies kind of do you put in place the right ESG metrics
* I couldn't get a job at KKR now compared to back in the 90s because it was a very small talent pool coming out. The funds really went to the investment banks and picked a few people and brought them into the fund but now it's more institutionalised
* “Culturally, oh it's it's it's chalk and cheese.” I mean it's quite incredible I'm LGBT and I've got two little boys with my husband and back pre-90s, private equity was a club like atmosphere and now culturally, my goodness as finance has grown up and become bigger, it's become less clubby.
* Private equity I think is one of the most exciting parts of the finance spectrum now because you invest in businesses, you sit on the boards of companies, you meet incredibly fascinating entrepreneurs and it's very focused on making sure you have a different set of decision makers around the table because you get better decisions rather than have small investment committees who only share a limited collective mindset.
* So, in summary, it's been quite a transformation and just an industry growing up I mean this is an industry that's been around only for 30 years. It's really young and so if you think of another 20 years out it's going to look different, but I can only see it going in One Direction.

Christian:

You mentioned the private markets are becoming much more freely traded. What did you mean by that? Do you mean just growth in a secondary market?

Tim

* Before, people will put money into the fund and then they would have to sit and wait for 10-15 years to recognise the returns, but now, secondary options are starting to emerge in which could lead to quicker recognition of returned capital. KKR is still a long-term fund but ultimately, I think you're going to get the private markets to be able to get quarterly or half yearly ability enter and exit private equity funds through the technology that's being worked through at the moment.

Christian

How much has technology and other areas changed how private equity is done or over the last 10-15 years?

Tim

* The process is very much still kind of old school. The backbone of KKR I'd say is our talent and oue processes. So, the two big themes that we are investing behind is clearly finding incredible talent to come and find the next billion-dollar deals and then invest, but the second big cost base of a place like KKR is technology.
* Technology is trying to streamline the process is even more and that's the biggest part of the investment after people. Just look at technology in the finance sector anywhere and the money that firms spend on technology, is just increasing every quarter, every year. They announced more and more. This comes with scale, I mean KKR's Assets under management now is nearly $500 billion and then Blackstone, maybe a $trillion. It seems like there’s been very much a rapid growth in assets in just the last two years.
* The last two three years have been pretty good for private investing because we like dislocation. Anything that has dislocation creates an opportunity for people like us and if you're brave enough and you've made the right decisions you can make some really interesting investments. An investment that I made in the height of COVID and we did it all by zoom, and never met the management team was we bought a business called Weller which is a hair care business and we bought it for $4.2 billion and shortly after, earnings fell off a Cliff clearly because all hair salons are shut. But we felt confident enough that when things opened up those earnings would rocket back up and one of the first things that people did post lockdown including me, my friends and was to go back to the hair salon. We took a risk when the public markets weren't around for a separate listing of that business. Just an example of something that we did where private markets and private equity can be quick and decisive.
* Private Equity can also help public companies that might be struggling a little bit. So that's why you're seeing many many bigger deals being done that are coming out of larger corporates. Operations have gone in hibernation due to Covid which has made the boards of big public companies say to their management teams that you need to focus on what you know, and get rid of all the stuff that you don't do well, and that's certainly a really interesting area for us as private equity investors. To kind of take some pretty interesting businesses who have been hit, and bring them back to life with energy, a new management team etc.
* So COVID-19 has been pretty interesting for new deal opportunities clearly as there's been a capital flight to quality during this period of time. It's a shame because it has meant that some of the newer funds coming out have had a trickier time to raise capital.

* If you're one of the big institutional investors, you a would be fired from your job for making a bad decision. This mindset has clearly helped the likes of Blackstone Apollo KKR Carlyle all those big players.
* This has been a sector that has not been that well understood by the public markets and were publicly traded and it's only now that I think folks investing in private equity firms are starting to realise “oh this is what they do,” as we have so many different income streams. It's actually quite difficult to figure out what we do and how to value private equity firms and what to do with all the dry powder.

Christian:

Talk about ESG and sustainability because you are on the global impact fund committee and you've made a number of investments recently but also for your entire duration at KKR in sustainable areas. I think just a couple of weeks ago you invested in Axel which is quite a big player in E biking aswell. So I was wondering from your perspective how in your kind of investment process how do you weigh up ESG practices? It largely qualitative or are there more quantitative metrics that you look at when assessing ESG investmnets?

Tim:

* I love the question. I think the private markets five years ago weren't really thinking this way. We created an impact fund which does smaller deals a few years ago and actually we're out raising our second impact fund at the moment now that's an Article 9 fund. So, I don't know if you're aware, but Article 9 is very much a a a fund that really is promoting and and sort of pushing forwards ESG targets.
* I will call them green funds. I mean investing in companies that are going to be doing good and promoting social economic good for all stakeholders.
* You know there are few businesses that fit in that category. Europe is on a journey, and by the way Europe is by far ahead compared to North America and Asia in thinking through what this means. We are investing in these areas because if we can create businesses that have an incredible ESG story, either they're just there solving a societal problem or we're helping businesses go from brown to green so helping them on their journey means you can actually get a better multiple on the exit.
* I mean the E bikes one I agree an interesting play on mobility and climate change you know he's clearly any bikes manufacturer but now he's got batteries that you have to think through how you going to dispose of them and you create a recycling kind of you know sort of you know circular economy how do you keep it all together so I think I think every business that we're investing at the moment has two themes one is digitisation and then number two is sustainability we have to have be excited about both of those and if we are then then it might be something for us

Christian:

You've had a long career in private equity and will continue to have a very long career. If you had to give one kind of piece of career advice to us as young students that want to go off into finance at some point what would it be?

Tim:

* Just being inquisitive. Try to understand how companies make money because the end of the day, what we do is we don't work in finance, we work in backing companies that make money things or products or pieces of software so if you're excited about how businesses get pulled together. I think that's where I spend the time.
* Number two, I would show entrepreneurialism because you know what, we recruit so many people who can do models, but the ones who stay are the ones who demonstrate they've got something else. They have an open mindset. They can do all the other stuff, but they can also interact with a CEO and gain that trust. EQ in combination with the IQ is crucial. Private equity over the last ten years has recruited a lot of IQ people because that's where the cleverest people went. Jamie Diamond doesn't want anybody who can do, but the top people who can create relationships with a founder or an entrepreneur or a CEO and can sit across the dinner table and have a lovely conversation. Please focus on your EQ, because with the technical proficiencies alone, you might get your first job in finance, but that won't take you far enough. You need the EQ bit to be able to come through.
* It doesn't matter what subject you study, don't worry about whether your history, economics, geography, English. In fact, I get super excited when I see a classicist applicant. I jump up and down because they're going to be very, very different from the equal manager standing next and I want different thought processes around the table to make a proper investment decision. I don't want people thinking the same so don't worry about what you're studying just it's more your attitude and the way you think about investing.