



Sterling Shines With Fund II Close

By Danielle Fugazy, Buyouts

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Sterling Investment Partners, is expected to announce today that it has completed fundraising for Sterling Investment Partners II L.P. with \$545 million of new capital commitments, easily surpassing the firm's \$400 million target.

"The environment was receptive for a number of reasons," said Doug Newhouse, a managing partner with Sterling. "If you demonstrate strong returns historically and LPs have a positive experience, that's a strong background so we had huge support."

Sterling started pre-marketing the fund in February and held a final close in September, although most commitments were in by June. Credit Suisse First Boston served as placement agent. "The Sterling guys are best in class in terms of where they are; they have a phenomenal track record," said John Robertshaw, a managing director and co-head of CSFB's private fund group. "Their fundraising effort was quick and successful, and in midst of a relatively robust market, they closed with a great list of investors-real first-rate LPs."

Although Sterling didn't comment on specific LPs, the firm said its investor base was made up of fund-of-funds, insurance companies, corporations, banks and endowments.

Almost 50% of Sterling's new fund is comprised of existing investors. The remainder of the capital came from new LPs. According to sources, previous investors who reupped included Aetna, General Electric Capital, HarbourVest, Landmark and Mass Mutual. New investors include Pantheon Ventures, Auda, Partners Group and Allianz.

"We have enjoyed our partnership with Sterling in its first fund and look forward to Sterling II," said John Morris, a managing director at HarbourVest.

Other than growing in size, Sterling II will follow the same path as its predecessor. Sterling generally looks to invest in companies with \$75 million to \$300 million in enterprise value and will invest anywhere from \$20 million to \$100 million in equity per company. "We really invest in companies where we believe our involvement will enable the company to move to the next level and that our knowledge will help them grow more rapidly. We also like to back teams where management is financially and emotionally committed to achieving the company's goals," said Newhouse. "It doesn't sound hard, but unfortunately, most companies do not meet those basic criteria."

Sterling Investment Partners I raised \$234 million and was closed in October 2001. That fund is three quarters invested and expected to be fully committed within the next 12 months. The fund will keep some dry powder to invest along Fund II and for add-on investments.

Fund II already has a letter of intent out to a large industrial manufacturer and is likely to have a capital call this year. Additionally, the fund is looking at three other companies in the food space, water filtration and aerospace sectors.

As for sourcing deals, Sterling will continue to put tentacles out in every direction. "We work with the investment banks, we have direct calls, we have a lot of inbound calls, we just make sure we are looking in every direction," said Newhouse. Fund II has a six-year investment horizon and is expected to be invested in about 12 companies when the fund closes.