Buyouts

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FlowStone passes $100m and looks toward the next level

The firm is aiming to grow its Opportunity Fund to $300m by the end of this year.
By Justin Mitchell

Scott Conners' goal in helping found FlowStone Partners was simple: "democratize" private equity by providing a path for high-net-worth investors to access private equity investments without having to build a family office.

That resulted in FlowStone Opportunity Fund, which takes in smaller-sized investments from mostly individuals and invests in secondaries, fund investments and co-investments.

As of the end of 2020, the fund had a 25.7 percent net total return for the year, 23.2 percent since inception, net assets of $103.7 million and had stakes in 29 funds and 284 companies, according to documents on its website.

"We're very pleased with the pace at which we've been able to raise capital into the fund," Conners, FlowStone's president and managing director, told Buyouts. "We think that it's reasonable to expect that that growth can continue."

Now, with about 300 investors and the fund's pro forma value between $160 million and $170 million as of the beginning of April, Conners feels ready to look toward new frontiers.

Conners launched the fund in 2019 with multi-family office and wealth manager

Scott Conners

Cresset. The fund has a $100,000 minimum investment, much lower than a typical PE investment. It charges a 1.25 percent management fee and a 10 percent carry.

Besides Conners, the firm's team includes Mark Phillip, a managing director and head of business development, managing directors Mike Carrano and Andreas Münderlein and senior associate Charlie Finnegan.

Conners told Buyouts in 2019 that the fund targeted investors worth between $5 million and $100 million.

While the firm's investor base as of the beginning of the year was 95 percent from the Cresset network, Conners expects that to decrease as the fund engages with external investors. He hopes by 2028 the investor base will be made up of 75 percent non-Cresset money.

"The $100 million mark was an important threshold for us," Conners said. "That's the point at which external managers start to think of you as being less emerging and that's turned out to be true so far."

Small checks

In the fourth quarter of 2020, the fund made four transactions and invested or committed $33.8 million. It has acquired fund interests with managers including BC Partners, Francisco Partners and Reverence Capital Partners. Its holdings in BC European Capital IX made up almost a quarter of its portfolio as of December 31, 2020.

Its primary investments include commitments to Apax Partners' tenth fund and New Mountain Capital's sixth fund. For now, they remain a small part of its portfolio, taking up only 15 percent as of the end of last year.

FlowStone's commitments to both funds were only $2.5 million, much smaller than a typical PE commitment to a fund that size.

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Conners said the firm had close ties with both managers and offered a path towards accessing a new source of capital.

"I think all private equity groups are trying to figure out how to access the multi-trillion dollar, high-net-worth investor market, and I think they see the growth potential in what we're doing," Conners said. "I think that's a part of why they accommodate us at a small ticket size."

So far, all its fund commitments have ranged between $2.5 million and $5 million.

Small investors

FlowStone has seen some preliminary interest from smaller institutional investors, including private school and university endowments, Conners said.

By the end of this year, he hopes the fund can reach another important threshold, $300 million, which would allow it to start being listed on the platforms of major broker-dealers.

Conners, who established himself as a longtime partner at secondaries firm Landmark Partners, said one burgeoning area of the secondaries market where FlowStone was not playing was GP-led transactions.

But, Conners said the market's focus on these transactions over the more traditional LP stakes has helped the fund. The bigger broker-dealers can make more money with the bigger GP-led deals, while traditional LP deals are lower-margin. That means smaller players like FlowStone are left with more options.

"I think it has cleared the deck a little bit for folks like us that are smaller and like to focus on those deals," he said.

Action Item: read more about FlowStone Partners' fund and performance here and here.

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Past performance does not guarantee future results. As of 3/31/2021 the Flowstone Opportunity Fund's total return since its August 2019 inception was 46.4%.

Returns are presented net of estimated gross expenses of 9.54% and 7.16%, net of Fee Waiver and/or Expense Reimbursement of 2.83%. If the Fee Waiver and/or Expense Reimbursement had not been in place, returns would have been lower. Performance figures do not reflect the 2% early withdrawal fee that may apply to some unit holders. Expenses are estimated as of the Fund's prospectus date, effective March 26, 2021.

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