

## **Apogem Capital Announces New Research Outlining Five Strategies for Sponsors in the Middle Market Private Equity Space**

*Research Uncovers Trends, Insights and Strategies for Private Equity Sponsors and Investors Navigating the Middle Markets in 2023*

**NEW YORK – February 23, 2023** – [Apogem Capital](#), in partnership with [Coalition Greenwich](#), today released a new research report analyzing how middle market private equity sponsors are navigating an environment characterized by volatile public markets, geopolitical uncertainty, and persistently high inflation. The report titled, “Exploring the New Paradigm Shift: Middle Market Private Equity Research,” features trends and insights from more than 100 interviews with managing directors and partners at middle market private equity sponsors in the US.

“Private equity sponsors continue to monitor new and emerging risks in an ever-evolving investment landscape,” said Louise Smith, Managing Director, Private Equity at Apogem Capital. “While investors are assessing the impacts of heightened inflation, accelerating interest rates and market turbulence, middle market GPs may be well-positioned to navigate this environment – using these risks as unique investment opportunities in the middle market.”

The research revealed sponsors in the middle market could benefit from less competition for assets and more consistent opportunities for attractive exits relative to larger peers and sponsors operating in other segments of the market. Overall, participants articulated five strategies they are adopting to maximize the advantages in the middle market to negotiate challenging market conditions.

### **Key strategic takeaways from the research data include:**

- **Build diversified portfolios emphasizing recession-resilient sectors:** More than 80 percent of middle market private equity sponsors have started to focus their investments on recession resilient sectors but defined the segments presenting the most attractive opportunities differently. This divergence illustrates the value of portfolio diversification to potentially lower overall risk and enhance risk-adjusted portfolio returns.
- **Focus on creating value through operational improvements:** According to the research, more than 70 percent of study participants indicated that current market and economic conditions have prompted them to focus on operational improvements at portfolio companies as a primary means of creating value. This may allow companies to weather economic headwinds and grow their way out of potential valuation compression that could accompany an economic downturn.
- **Lean into Environmental, Social and Governance (ESG) and Diversity and Inclusion (D&I) initiatives:** 90 percent of middle market private equity respondents indicated that limited partners (LPs) are driving interest in ESG investing. PE sponsors have taken action to respond to this interest, with the share of respondents indicating that they have a formal process to evaluate ESG-related risks and opportunities increasing by nearly 50 percent since the 2021 report.
- **Capitalize on fundraising by larger private equity sponsors for attractive exit opportunities:** When discussing fundraising challenges, many managers cited larger private equity managers coming to the market sooner with bigger funds. While this has made fundraising more difficult

for middle market managers, it also suggests a large pool of private equity dry powder up market that may be motivated to continue to transact, potentially acquiring the portfolio companies of middle market funds, even in the event of a downturn.

- **Cultivate relationships with reliable partners:** Middle market private equity sponsors are shoring up ties with their most loyal and consistent partners to ensure continued access to capital throughout any extended market disruptions. Private equity sponsors are asking capital providers for partnership, flexibility, and speed – attributes that can make or break transactions in a volatile environment.

“The investing and macroeconomic environment continues to evolve. For some investors, this is their first experience investing or managing a company through a rising rate and potentially recessionary environment, outside of the COVID-related downturn in 2020,” said David Fann, Senior Managing Director and Vice Chairman at Apogem Capital. “While middle market sponsors are preparing for a challenging period ahead, we believe cycle-tested managers with unique value-add should be well-positioned to navigate a complex environment, and potentially produce attractive results. Private markets are nearly impossible to time - we believe that staying disciplined with consistent capital deployment across a diversified portfolio has generally performed best over the long term.”

To read more about the survey results, download the complete research report [here](#).

### **Methodology**

In the third quarter of 2022, Coalition Greenwich, in partnership with Apogem, interviewed 102 managing directors and partners at middle market private equity sponsors in the United States. These in-depth phone conversations centered on market conditions in 2022, as well as investment trends, exit strategies, funding sources, and emerging challenges and opportunities.

### **About Apogem Capital**

Apogem Capital was formed in April 2022 through the combination of PA Capital, Madison Capital Funding and GoldPoint Partners to create a singular and unified, world class private markets’ investment firm. With approximately \$39 billion in assets under management as of September 30, 2022, we believe Apogem has the deep relationships, data, and history in the middle market to deliver innovative solutions to both clients and sponsors. Apogem Capital offers investors access to the middle market’s growth engine through investments in leading private companies and funds. The Firm manages a streamlined suite of capital solutions, including direct lending, junior debt, primary fund investments, secondary investments, equity co-investments, GP stakes, and private real assets. Apogem Capital is a wholly owned subsidiary of New York Life Insurance Company (“NYLIC”), through New York Life Investment Management Holdings, LLC (“NYLIM”).

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