LPs

Connecticut pension wants to expand mid-market PE exposure

The system joins other large LPs in making commitments to the smaller end of the market.

Gregg Gethard - 2 days ago

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Connecticut Retirement Plan and Trust plans to commit $1.7 billion to private equity in 2024, placing a major focus on increasing its exposure to small and mid-market funds.

Many public systems, as they have grown their private equity operations, build out the capability to track and monitor mid-market private equity funds. Large systems with smaller teams are generally limited to cutting large checks to well-established, large managers.

The $51.6 billion Connecticut system, which according to *Buyouts'* database ranks as the United States' 30th biggest public pension, will discuss the 2024 private funds pacing plan at its January 10 board meeting. *Buyouts* reviewed a presentation detailing the pacing plan in advance of the meeting.

According to the presentation, the system plans to allocate $1.7 billion to private equity in 2024, down from the estimated $1.925 billion committed last year.

Up to $1 billion of those commitments would flow to up to five smaller and mid-market funds, the presentation said. In addition, the system plans on making up to three growth equity commitments with a target between $300 million and $450 million.

Multiple other large LPs, such as Teacher Retirement System of Texas, have increased their focus on buyouts funds on the smaller side of the market, which many strategically view as a way to pick winning managers.

"Many of these companies are being introduced for the first time to institutional capital. It's a classic strategy for private equity sponsors to invest in those companies, make improvements and improve profitability based on performance enhancements instead of financial engineering," said Michael Mufson, managing director and CEO of Philadelphia-based investment bank Mufson Howe Hunter.

"I certainly can understand why investors are looking at these opportunities, There is less competition, more opportunity for proprietary deal flow and less risk per deal due to deal size," said Bruce Fenton, a partner at law firm Troutman Pepper Hamilton Sanders LLP.

According to the presentation, Connecticut also has plans to develop a "customized solution" that would allow it to invest in GP-led secondaries and continuation vehicles in 2024, the presentation said.

Connecticut's private asset pacing plan shows another big shift as the system is targeting $2 billion in private credit investments in 2024, up from $810 million last year; and real estate commitments are targeted at $1.1 billion, up from $500 million, according to the presentation.

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