# Sam Gaynor

## Episode 235: Private Equity Meets Insurance: Insights from Altamont Capital's Sam Gaynor

GUEST Q & A

**Stewart:** Welcome to another edition of the InsuranceAUM.com podcast. My name's Stewart Foley, I'll be your host. We have got a great podcast set up for you today talking about private equity, and we're joined today by Sam Gaynor, who's managing director at Altamont Capital Partners. Sam, thanks for joining us. We're thrilled to have you, and I look forward to getting to know you a little bit.

**Sam:** Thanks for having me on Stewart. I appreciate it.

**Stewart:** We're thrilled. And just we were going to get into Altamont and your view of the world in just a minute, but I want to start this one off the way we always do, which is what is your hometown? Where did you grow up and what was your first job? Not the fancy one.

**Sam:** I grew up in Newton, Massachusetts, right outside of Boston. Lived there through high school. My family's still there. My first job was actually painting a number of the public schools for the city of Newton. Would go and meet up with a crew at 5:00 in the morning and drive around and slap paint on a number of the schools that had been damaged during the course of the year. And definitely I've carried over some of those skills into my home life these days as I was recently painting one of our kids bedrooms.

**Stewart:** See, and this is the thing we just had on somebody who was the head of a capital group at another firm, and he was talking about being a painter, and he got left in a building with a five pound ball of putty and the following instructions like patch the holes that are in these baseboards and whatever, and they just left him. He was like 14 or something. They just left him for the day. So I think you're the second person in a week that has a painting background, which I think is encouraging. Maybe this is a trend.

**Sam:** That's funny. Yeah, having a background now in the insurance space, it makes you think about who's doing the jobs in the contracting space. And you think about contractors liability insurance and the like, and certainly things to watch if they're employing people like he and I.

**Stewart:** I don't want to get too far off track here, but I worked for a worker's comp carrier for a few years and I would go to the serious claims meetings, which describe some of the most horrific injuries you could imagine, and it really brought home what do insurance companies actually do? But I grew up, as we talked about off camera, I grew up in Imperial, Missouri, and my grandfather would, I mean immediately upon arrival, remove all safety equipment from all of our tractors and weed eaters, chainsaws, whatever it is, whatever safety equipment that some engineer had put together my grandfather quickly thwarted it. And I would listen to the accidents of the people, what happened to them, and I'm like, "Oh my gosh, I've done that exact move and I never gave a thought to what could possibly happen." So it does, I think, change your view of some of the liability on that end.

**Sam:** 100%. I mean, you think about it, we go through, well, we'll get into it, but we go through underwriting reviews on the PNC side for every new program that we're onboarding. And you sort of say, "Well, what's the claim you have to worry about here?" And you end up hearing stories and things that you just never would have expected, but it leads you to have a very skeptical life living in the insurance world and seeing what you see.

**Stewart:** So true. So let's talk about Altamont Capital real quick and just you can start us off with kind of an overview, particularly your focus on long-term control investments in the middle market space. And if you can just kind of give us a parameter of how you define middle markets.

**Sam:** Yeah, Altamont was started, I guess now about 14 years ago, and exactly with that premise, which we've stuck to this day, which is making control investments. And I'll define it in middle market companies, which admittedly can be broad, but we tend to think of it as companies with, call it $50 to $500 million of revenue, something like that. Where we're writing average equity checks into those companies that range from $50 to $250 million. And the control part of it admittedly can be nuanced, but normally simply defined is that we have control of the board of directors of the company, and thus we have the ability to work really closely with management to enact what we collectively, we and management, think is best for the business.

The long-term part is really important. We have a fund life that's up to 17 years, which is really unique for private equity and we'll get into some of the things we've done in financial services, but it's really important for that because oftentimes we're either investing in a business that could be a turnaround situation, it could be one of these new de novo platform builds that we've done in financial services. It could be in a space where there's some level of cyclicality to it, and you may need more time than the average five-year hold that private equity's used to in order to drive the best outcome. And you never want to be a forced seller, that's how you end up getting suboptimal results in an exit. And so having that flexibility to invest for could be three years or could be 10 years, has proved really beneficial for us.

**Stewart:** That's super helpful. So talk to me a little bit about the role of partnering with strong management teams plays in your investment strategy. And I mean, it's near and dear to me because we're actually in the process of growing ourselves and I've learned a lot about the importance of being able to interact with a capital partner.

**Sam:** Yeah, it's interesting. I feel like you can read study after study around what drives success in the private investment world and people look at all these different variables. Is it gross margin? Is it defendable IP? And I feel like time after time, it comes back to having a great management team, which is amorphous, but it's ultimately all about the people. And so when we invest, ideally it's behind a great management team that exists there already. Oftentimes it can be a great founder or a great CEO that's on board and the rest of the team needs augmentation. And we have internal folks, as in for example, in financial services, we have a dedicated in-house recruiter who all she does is recruit for our financial services investments and has a big Rolodex of folks that she knows that she can reach out to if we need a new CFO or a new actuary or a new person on the distribution side.

And our teams find that really valuable. And frequently it's for a position that the company may have not needed in the past when it was scaling to the level that it got to in order for us to be able to invest in it, but in order to get from $20 million of EBITDA to $50 million of EBITDA, they need this new position, whether it's a chief of staff or head of distribution or a true CFO versus a controller, and we can help provide that. And all that does is free the CEO up to do what he or she does best, which is think about strategy and the product and ultimately grow the business.

**Stewart:** You've had a fair amount of success in financial services, and you mentioned a de novo incubation prior. Can you describe one of those ventures and what made it successful?

**Sam:** Yeah, of course. I think for us it comes from just at the highest level, it comes from a few tenants. One, we oftentimes think about being able to build the company we want to own versus buying the company that's for sale. And that's admittedly hard to do in, as an example, I mean, we do a lot in industrials, right? That'd be very hard to do for a manufacturing business. We don't have the time or the expertise to go build a new manufacturing facility in the Midwest somewhere. But in financial services where your manufacturing takes place on paper and in computers, it's possible. And typically for us, that hasn't only been this way but has been in what I would call balance sheet businesses, regulated businesses that requires relatively significant amount of capital to go onto their balance sheet to stand up in the case of, for us Kuvare, which I'll get into in a minute. Or Accelerant, a regulated balance insurance company that's rated by a rating agency and thus is dependable for policyholders and the brokers that represent them.

And so one that's been tremendously successful because we'll talk about Kuvare later, I'll mention Accelerant, which is a property and casualty risk exchange where we met the team in 2018 and they had an idea around providing a better solution for managing general agents, essentially insurance companies who don't have their own balance sheets and need insurance companies to work with them in order to be in market who write very niche lines of property and casualty insurance. We have one we always talk about, which is a specialty chicken farming general agent, and they know better than anybody the specific risks like we were alluding to that are inherent in chicken farms and what cause loss is there and how to guard against them with risk mitigation measures.

And so examples like that, and that business has grown from a true startup where it had no revenue and three employees when we got going to being worth several billion dollars, and this year or last year was ended the year at run rate premium of over $2 billion. So it's been a tremendous success and our involvement with that company along the way has been really comprehensive. We've helped with hiring strategy expansion into the United States, regulatory support, capital structure, and of course the management's the one on the ground day to day doing all the hard work. But I would like to think that we've earned our keep in working alongside them to help make all that happen.

**Stewart:** Yeah. I mean, I wouldn't even hazard a guess at the idiosyncratic risks of chicken farms, but I mean there's got to be a lot of expertise there. I mean, as crazy as it sounds, there's a lot of ways that chicken farmers, a lot of strategies that they use to help with their production and everything else. And I mean, there's got to be a lot to know there, which is something I hadn't really thought a lot about, but it's interesting that you're tangentially involved in that world.

So when you are looking at investments, so what are some of the key criteria that you'd consider when deciding on an investment or an incubation and as kind of a follow on, how do you evaluate a clear market opportunity?

**Sam:** Yeah, it's a good question. I may start with the second question first, which would be market opportunity guides a lot of that. And in terms of thinking about an investment, especially for a de novo platform. So one part of it is market sizing. And I'd say that a little bit less than the way that a tech investor may think about market size, but for us, you have a bunch of incumbents and you need to think about ultimately, what revenue do I have to scale to to get to a certain level of profitability that times a certain multiple and our ownership gets us an expected return that we would like to generate on our investment? And so you have to think about the market sizing and then you have to think about growth rates and all of that. But what does the incumbent landscape look like?

And I think the common theme across all of our, and it's startup investments in financial services is they were huge markets that were growing at different rates, but growing with a very mediocre incumbent infrastructure. That if you look at the net promoter scores of competitors in the space, they tend to be very low, if not negative. And you have customers that exhibit a high degree of frustration and frankly, typically around speed and technology with how these companies work, if you think about Accelerant, the example that I just gave, I mean, the biggest provider of capacity to MGAs in Europe initially was Lloyd's of London. And they've been around since the 1600s, and they started when they were insuring ships that were going out for years at a time. And frankly, less than you would've expected has changed since then in terms of how everything is done. It's very paper-based and the like, so we helped to solve that.

With Kuvare, one of the really interesting things we've done, and it doesn't sound like rocket science is install to this point 100% e-application submission from brokers. And that's in a world where, I mean, there are still policy submissions that are being done via fax, which is just crazy. And you think about all the inefficiency that comes with that and how cumbersome it is for a broker to have to manage through that. And so we've been able to start fresh, start with an approach working with the industry experts who are running these companies to say, what are the big pain points for our main constituents in the space and how do we solve them by just providing better service? And so that's been a very common theme across the spaces that we've been in terms of market opportunity.

And then once you go beyond that, it's thinking about the management team and so are you backing people that have been in the space for a while and importantly have a lot of relationships and straddle, which is a very rare thing to find, straddle the industry expertise part of the curve with the very forward-thinking technology savvy part of it as well. And again, that's a rare combo to find, but that would sort of be a common theme across all of the executives in our respective financial services investments. And then the next thing would be looking at returns on capital. Businesses that have great, when I say marginal returns on capital, that for each dollar deployed, you can easily track and look at the profitability related to that. That's a huge thing that we focus on. If you're selling one new insurance policy or you're onboarding one new product or you're expanding into one new area, that's a big thing.

Then finally, we look at the pathway towards an ultimate exit whenever that may be. And we're not myopically focused again on saying, "This is a company that has to be worth X dollars in three years," but you get to start from the beginning and say, "Who would buy this business and what's the price that they would assign to it or what's the multiple that they would assign to it?" And if you think about, we often get pitched on as an example in the insurance world, taking advantage of property CAD opportunities in areas that are really stressed, Florida or Louisiana or something like that. And you can look at it and say, "Well, there's a great opportunity right now, but there's no real path to exit."

I mean, ultimately it'll follow the rate hardening-softening curve that typically exists in the property and casualty world of insurance. It'll get less profitable. Or even if it doesn't, there's a high level of expected volatility there, and it's hard to imagine exactly who would buy that, because there's lower barriers to entry, even if you thought you could grow a lot in the near term. So we think a lot about those things and sort of say, "Let's build a great business that somebody's going to be dying to own someday."

**Stewart:** So you've mentioned some specifics around Kuvare. Can we kind of transition and talk about that because they're one of your portfolio companies, they were actually a client of ours as well? But just to kind of talk about your specific use case, and I've been in the insurance world long enough to be mildly dangerous. So versus faxing in which I think is incredible. I mean, most of the medical profession still relies on fax machines, and I'm like, I don't even know how to send a fax, the hell.

**Sam:** It makes two of us.

**Stewart:** Right. But if you convert to an entirely e-submission process or electronic submission process, it seems like just my instincts tell me that that means that it's easier for a broker to submit a risk, which means you're going to see increased deal flow. And the second part of that is that given that the data is already in the fields that it needs to be for a proper evaluation, you're going to pick up some operating efficiencies there as well. Is that what you actually saw happen, or can you talk about that, expand on that case just a little bit?

**Sam:** Yeah, 100%. All of that is true. And a big part of that is actually having the data in one place. And you think about the world that we're getting into now with AI and even just more sophisticated data analytics that are a step behind that and being able to be a better partner to your broker. And so to say, "Hey, this cohort of customers is coming up for renewal, their policy term is ending. You should get in front of them and work on the renewal so that they don't go to another broker and buy an annuity or life insurance policy away from you." But that's certainly true. I mean, just to quantify it, when we initially invested, we started Kuvare with the management team and two other sponsors back in 2015. So we bought a small insurance company in Baton Rouge called Guarantee Income and Life, Gilico, back in, I think we signed the deal in 2015, closed on it in 2016.

And that year in 2015 before we ultimately closed, I think they did $38 million of premium. And this year we should do over $4 billion at Kuvare of retail premium. And so obviously the market hasn't grown that quickly, and part of that is due to just better upfront service and things like the e-applications. A big part of it is simple stuff like listening to the distributors and what do they want from a product perspective. And it's largely been bringing a level of sophistication to mass affluent middle market life and annuity customers that didn't previously exist. We always compared the life and annuity business to private equity or the deal business in a sense where it takes the same amount of time or frankly even more time to close a small deal as it does a big deal.

And if you're in the life and annuity world and you're a broker, the commissions are much higher on a big deal, same percentage times a larger number, and that leads to market opportunity when the absolute sort of dollar value and size of the market is quite large, but the innovation is lagging. And so we saw that opportunity. And so there's been a lot of product innovation that Kuvare has done successfully and impressively, particularly in the fixed index annuity space that has led to that success.

**Stewart:** I don't want to be a name-dropper her, but I do want to tell you that in fairness, I'm almost certain that I was on the Gilico relationship back when the earth was cooling when I was at AAM in Chicago.

**Sam:** Oh, interesting.

**Stewart:** Many moons ago. So I know a little bit of that story. And we had interacted with the management team and the distribution professionals there. And so yeah, kind of know that company. So just kind of going down a little bit further, I mean, if you can take us one, crank the lens out just to shade, can you explain the structure of Kuvare and its focus within the life and annuity insurance space?

**Sam:** Sure. So Kuvare is a holding company which oversees several different services assets, one of which we sold recently, which I'll get into, and several different insurance companies. So we have three onshore US rated insurance companies. Gilico is one, it was the first one that we purchased. United Life Insurance Company would be the second with a bit more focus on financial institutions. And then LBL or Lincoln Benefit Life, which was part of Allstate way back when.

And if you're flying into O'Hare, you'll see that the Kuvare sign on a building next to the airport, which was previously LBL's building. We have two Bermuda reinsurers, KBR and KLR. And those businesses are responsible for both affiliated and unaffiliated reinsurance, which has become a big part of the business. And we're now doing billions of dollars a year in what we call our institutional business or third party reinsurance business with other insurance companies out of Bermuda and have built up a great team there that's doing an amazing job.

And then from a services perspective, when Kuvare was formed, we formed Kuvare Asset Management or KAM to provide asset management services to what is now a $20 billion balance sheet that Kuvare has. And they do work with a select cohort of third party asset managers who they sub delegate to, but the majority of the book is managed directly by that team. And recently we struck a deal to sell that business to Blue Owl with a long-term arrangement. And we think that'll be really mutually beneficial to both parties being able to have access to the incremental capabilities that Blue Owl brings to bear. The team is going with the business, so it's the same personnel that are overseeing the investments they've put in the ground. And then we have a business that we started recently called Ignite Partners, which provides third party services to other insurance companies and really leverages the amazing capabilities that have been built up in Kuvare over time.

**Stewart:** So given the anticipated acceleration in consolidation activities, what opportunities or challenges do you think there are for Kuvare and companies like them?

**Sam:** In terms of just consolidation in the life and annuity market that's occurred?

**Stewart:** Yeah. I mean, do you think that trend continues? It certainly seems like it is working well.

**Sam:** I think there's no doubt that the trend of asset managers buying life and annuity companies will continue. I mean, there's seemingly every asset manager in the world wants to, especially in this period when fundraising from LPs, you can look at the industry data, I think I saw on PitchBook yesterday that it's taking on average 18 months for private equity to raise new funds. And then you think about the benefit of having ‘permanent capital’, that comes from life and annuity businesses. I have no doubt that asset managers will continue to have demand for that. I hope that the way that we have been with KAM, that those buying it are responsible stewards of those assets, that is a worry that I have. And so I do think though, there's a lot of asset managers who have great expertise in private illiquid assets that can generate real alpha for insurance companies.

And by the way, that filters down to policyholders. I mean, better returns enable insurance companies to be more generous from a crediting rate perspective, and that benefits everybody. So I have no doubt that that will continue. I think we'll have to see in terms of actual insurance companies being combined under one roof. Reinsurance deals, I think will continue to be increasingly common as a way of growing assets under management. But we remain really bullish on the life and annuity world from here. I mean, you just look at all of the demographic trends with retiring boomer populations and underfunded pension plans and underfunded retirements. There's a real need in the market for these products that these companies are meeting, and there's a need for capital to go onto balance sheets to be able to support that. So I think that you can look at the industry data, but the growth we've been seeing in the fixed and fixed index annuity space will continue for the years to come.

**Stewart:** Well, just kind of on the back end here, with six platform investments completed and the seventh underway, what have you learned and how do you see the future evolving for Altamont Capital Partners?

**Sam:** Yeah, and those have actually just been our startup investments. We've had a number beyond, I think it's over 10 from a financial services perspective. But we continue through our trafficking, it's every platform company we have I view as a learning opportunity, and we end up seeing either competitors or frankly service providers to our business that aren't doing things quite as well as we think they could be done. And that creates theses for us to either go pursue other companies that exist and are in market right now, or just to start one fresh ourselves. And that's actually what we're working on with our seventh startup right now. So I think we will continue to be very active across the entire well financial services landscape, but particularly in insurance where we have the most expertise. And hopefully leveraging not only the knowledge, but the relationships that we have through what we call our ecosystem. And that's what we're most focused on with our new investments, finding ways to really drive synergies across our portfolios such that both for the existing companies and the new investments, everybody's doing better than they would do independently.

**Stewart:** That's great. And so I've got a fun one for you out the door. Well, I actually have two fun ones for you out the door. So I happen to read your bio that you went to Wash U undergrad in University City in St. Louis. I wonder if you can recall getting your diploma, because I was a prof for a few years and I've seen a lot of graduation commencement ceremonies, and the way it typically works is that they call your name and then the crowd, you're a G, so you're about a third of the way through. The crowd obviously goes bananas when your name is read and you shake the glitterati on the stage and you go down the steps on the other side having made your first few steps with a college degree in your hand. If you ran into Sam Gaynor that day with what you know now, what advice would you give your 21-year-old self?

**Sam:** Well, first of all, somehow, I don't know if the class size grew too much, but I didn't have the privilege of walking onto a stage. I think they might've called my name or something in a rapid roll call, but I'm not sure I ever shook the president's hand-

**Stewart:** Oh, you didn't. Okay.

**Sam:** ... and make good on that. I think the process works. And what I mean by that is not stressing about where you are on any given day in the success that you've had that day, but that over the long term, over at this point, 15 or 20-year career, if you're doing the right things, if you're showing up at work every day and you're focused on trying to be better every day and learn as much as you can from people and find mentors and all those things, things will work out for you. And those days when it's tough and you have a bad day at work for whatever reason, not to extrapolate that into long-term consequences. I'm just a very firm believer in the process. Do what you think is the right thing to do every day, and it ultimately is going to work out, always be trying to learn more.

**Stewart:** I love this next question. I can't wait to hear how you answer it. Table of four for lunch, you and three guests, who would you most like to have lunch with, alive or dead?

**Sam:** Good dinner party question. I guess from part of it, apropos to this conversation, I would say an insurance industry scion, I mean, I've always respected Hank Greenberg's career. I'd love to have a conversation with him and sort of ask questions around that. I've always just been very impressed. Maybe it's sort of my Boston roots, but John F. Kennedy, I've just always found to be a tremendous person and would love to hear his experiences.

**Stewart:** Absolutely.

**Sam:** And obviously life ended way too short. And Marcus Aurelius really, I've been a student of stoicism and his writings are just fine to last the generations that they have, they prove very prescient. And so those would be my three.

**Stewart:** It would be a tremendous table to say the least. Well done. So we've been joined today by Sam Gaynor, managing director at Altamont Capital Partner. Sam, thanks so much for taking the time. It's been great to get to know you, and I learned a lot today, so thank you so much.

**Sam:** Thanks for having me, Stewart.

**Stewart:** My pleasure. Thanks for listening. If you have ideas for a podcast, please shoot me a note. It's Stewart at InsuranceAUM.com. Please rate us, like us, and review us on Apple podcasts, Spotify, Google Play, or wherever you listen to your favorite shows. My name is Stewart Foley and this is the InsuranceAUM.com podcast.