

OCEANSOUND PARTNERS: BUILDING A FIRM AND RAISING AN OVERSUBSCRIBED FUND I AGAINST ALL ODDS

The Largest Network of Diverse- Owned
Alternative Investment Firms

When OceanSound Partners announced the close of its inaugural fund with \$780 million in total capital commitments and \$1.15 billion in regulatory assets under management earlier this year, the firm raised the largest Latino-led first-time private equity fund. And this was accomplished amid a pandemic.

OceanSound is a New York-based private equity firm that invests in middle market technology and tech-enabled services companies that generally serve government and enterprise end-markets. The firm is distinguished by its strategic and operational value creation methodology combined with its team's expertise in government funding and regulatory matters.

Joe Benavides, OceanSound's Managing Partner & Co-Founder, and the team began the fundraising process just before the COVID-19 pandemic struck the U.S. The team had planned for the possibility of a recession at some point after forming the firm, so they were somewhat prepared to sustain a more turbulent economic environment. But there was no way to have anticipated a once-in-a-century pandemic striking during the fundraising process.

NO SAFETY NET

Like many who immigrate to the United States, Benavides developed fortitude and grit at an early age. "I came to the U.S. from Puerto Rico when I was 10. English is not my first language," he reminisces. "There was no safety net in my life for anything, and, like many others in a similar economic situation, I had to start working at a young age – there was no other way." That "Get it done. No excuses" mentality served him and the OceanSound team well when the pandemic lockdowns were instituted.

For much of 2020, first-time fund managers like OceanSound couldn't even pitch to potential investors. On the positive side, Benavides had developed a strong set of experiences during his tenure with Veritas Capital and The Blackstone Group. Those experiences led to several allocations from marquee investors, including some of the nation's largest pension funds, insurance companies and asset management firms.

With anchor investors in place, OceanSound's leadership, which includes co-founders Ted Coons and Jeff Kelly, decided to deploy capital to prove the firm's thesis – leveraging proprietary insights to invest in companies with attractive downside protection and breakout upside returns, making them resilient and recession-resistant. To effectively execute those deals, OceanSound stayed focused through the turmoil. "We just stuck to our knitting and kept doing what we know how to do very well. People started poking their heads up a little bit in the fall of 2020, and then winter came. It got bad again, and everybody went back into their holes," recalls Benavides.

But by Spring 2021, the OceanSound team was able to land more investor meetings, revitalize their fundraising efforts and make headway before the Omicron surge slowed things down again. "We had to work extra hard to do everything. It was all about execution. Finding the right LPs, the right investments, and the right way to talk to them about being appropriately defensive amid the continued uncertainty," says Benavides.

A RESILIENT INVESTMENT

Among OceanSound's early investments was Digital Management Inc. (DMI), a Bethesda, Maryland-based technology solutions company specializing in digital strategy, design, transformation and support. Its clients include General Motors, Liberty Mutual, and the federal government. "DMI has some differentiated solutions in their enterprise segment that are quite disruptive in the government sector relative to how government customers have historically outsourced some of this work, and that's very exciting," explains Benavides. "We have a good bit of downside protection for our investors, and we see a lot of upside in terms of how we can work with management to build and grow the business."

The strategy worked, and investors began taking notice. "What happened during COVID reinforced a lot of our investment themes with LPs because we invest in resilient businesses that are strongly linked to government," says Benavides. "With COVID, government spending rose, and everyone began investing more heavily in their technology infrastructure to properly enable remote work. The first two companies we invested in as the pandemic was emerging were providers of technology managed services, primarily around cloud-based environments. Those tangible precedents gave more credence to where we are investing the fund."

However, that early success didn't come without its share of nail-biting moments. "I was nervous that we wouldn't be able to execute in the pandemic environment," Benavides recalls. "We had hired a good-sized team, and I was nervous that we could run out of money or time to keep them motivated." But by the time the fund neared final close, investors were clearly embracing the strategy, seeing the portfolio companies and the team perform even during turbulent times, and allocated capital accordingly. For Benavides, having an oversubscribed inaugural fund was as much a massive sigh of relief as it was a celebration.

It was also a culmination of decades of hard work for the entrepreneur who came to the mainland with very little. After earning his bachelor's in economics from the Georgia Institute of Technology, Benavides decided to go into finance. He enrolled at The Wharton School at the University of Pennsylvania and pursued experiences, including his time with Veritas Capital, a very small firm when he joined it, which would one day prepare him for a more entrepreneurial career path. "Like many others without connections or pedigree, I had to work hard and be creative to advance my career and that journey ultimately sharpened skills that have proved immensely valuable to launching a private equity firm."

There are now five companies in the OceanSound portfolio (and 11 add-on transactions completed) that collectively generate over \$1.6 billion of revenue and employ over 4,750 people. Looking back, Benavides describes the fundraising experience as a two-year battle. "First-time managers were very disadvantaged during the pandemic because a lot of investors devoted their energies to re-upping for the next fund with their existing managers," he says. "So, we were fighting those headwinds as well as the general first-time fund concerns. It was an experience I don't want to relive but am grateful that we navigated it successfully."

IT TAKES A TEAM

The entire experience could have easily tanked a new firm, but the OceanSound team rose to the challenge. "I think to be successful doing this, you need to be very goal-oriented and understand how to work backward from those goals and set the right milestones," Benavides advises. "And then it's about execution because in the private equity business, your work ultimately produces a very

tangible scorecard. So, the hardest part was just pulling it all together and getting the momentum with investors." He also recommends that young investment firms ensure that everyone who joins understands the need to be thrifty as a startup.

Benavides credits his team's hard work for the successful inaugural fund. "Trying to be a good leader is challenging when you're under massive amounts of stress, so the right team is critical," he admits. "Much of our team has been working together for many years and had trust in each other that we could execute on our investment activity while I spent more time with our potential investors. We never took anything for granted, and we always kept fighting for that next investor and investment opportunity. Our team never quit. And, together, we're building a firm that will have longevity."