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Ten years after leaving Carlyle, Churchill's founders have created a $50 bln business

By Luisa Beltran

One of the biggest comebacks on Wall Street has been about a decade in the making. In 2015, the four founders of Churchill Financial split with their private equity owner, Carlyle Group, and relaunched their business with investment advisor TIAA. Today, the firm known as Churchill Asset Management is one of the largest direct lenders with $50 billion in committed capital.

Churchill is a major player in private credit, one of the hottest sectors in alternative finance. Private credit refers to firms, which are not banks, that offer loans to businesses, typically small and medium-size companies. These companies are usually too big or risky for banks and too small for the public bond markets. Demand for these services has soared so much that BlackRock expects the global private debt market to hit $3.5 trillion in AUM by the end of 2028.

Like nearly all players in the private credit sector, Churchill has experienced significant growth. Last year, Churchill was a lender in over 450 portfolio investments, said Churchill founder and CEO Ken Kencel. This year, the firm ranked as the second most active U.S. middle market PE lender in the second quarter, behind the much bigger Ares Management, according to league tables data from PitchBook. "We were the number one most active direct lender in the United States last year," Kencel said.

Kencel, in fact, claims he's one of the first to publicly state that the private credit markets are in the midst of a Golden Age. "We're certainly in a good period of time as it relates to financing and private credit in the middle market," he said.

Churchill doesn't focus on the high-profile, $10 billion-plus-size deals that make headlines, such as Silver Lake's $13 billion buy of Endeavor. Instead, Churchill typically provides loans of up to $500 million to middle market companies with $10 million to $100 million in Ebitda, Kencel said. He added that Churchill's senior lending team did 23 new investments and 30 add-ons in the second quarter of this year, valued at nearly $4 billion.

COURTESY OF CHURCHILL

Chris Cox, Ken Kencel, and Randy Schwimmer are the three remaining Churchill founders.

The private credit market is dealing with a business environment where mergers have slowed significantly since 2021's record setting pace. The middle market, though, has rebounded better than large deals, Kencel said. For Churchill, the number of senior lending financings in the second quarter tripled year over year and doubled compared to Q1, he said. Churchill doesn't target tech startups but established businesses that are owned by private equity. Clients include Clean Solutions Group, which makes nonwoven filtration and cleaning products; Ascend, which partners with accounting firms; and Heartland Paving Partners, a provider of commercial asphalt and concrete maintenance services.

In the U.S., Churchill's committed capital stands at about $50 billion. More than half, or $33 billion of that, is in its private debt business, he said. The rest Churchill invests in private equity solutions, in the form of secondaries, coinvestments, and fund commitments. Churchill and Arcmont have 700 institutional investors, or LPs, including public and private pensions, insurance companies, and sovereign wealth funds.

"We are a very large LP in over 310 U.S. middle market private equity funds," Kencel said. Churchill invests more than $1 billion a year in PE funds, he said. It is an LP for funds including Kohlberg & Co., Stone Point Capital, and the Jordan Co.

Churchill's AUM grew by $24 billion after Nuveen closed its buy of Arcmont Asset Management, one of the largest private lenders in Europe, last year. Both Churchill and Arcmont are part of the Nuveen Private Capital platform, which has $74 billion in committed capital. Churchill employs about 200 people while Arcmont has another 100.

Drexel served as a launch pad

Kencel, who spoke to *Fortune* from his offices in Midtown Manhattan, has faced his share of setbacks. He was adopted at birth, orphaned at a young age, and then raised by his uncle. He grew up in a working-class environment in Buffalo, attended Georgetown University for undergrad, and then law school at Northwestern University. Both were on scholarship. His uncle, a steel worker, pushed Kencel to attend good schools. "You got to get out of here," the uncle would say to him.

Kencel started out as an attorney. At law firm Dewey Ballantine, Kencel worked on high-yield transactions that helped him get hired at Drexel Burnham Lambert, the investment bank led by legendary financier Michael Milken. Kencel's boss at Drexel was Alison Mass, who is now a Goldman Sachs partner and chairman of investment banking. "I loved being at Drexel…I loved the culture. I think most of us who were there felt incredibly fortunate to be at such an incredibly entrepreneurial organization," Kencel said.

Drexel was a breeding ground of talent, Kencel said. Many of the executives would later go on to found some of the most well-known credit firms. There's Marc Rowan, who helped make Apollo Global Management into one of the biggest lenders; Tony Ressler, a cofounder and executive chairman of Ares Management; Bennett Goodman, cofounder of GSO Capital Partners (Blackstone acquired GSO, now known as Blackstone credit, for $1 billion in 2008); and Craig Packer, copresident of Blue Owl Capital. (Rowan and Ressler along with Leon Black and Josh Harris all worked at Drexel and later helped launch Apollo.)

Try, try again

Kencel launched Churchill Financial in 2006. The New York firm was initially backed by the merchant banking unit of Bear Stearns, and Churchill did well as a senior lender to middle market companies owned by PE firms. That changed in 2007 with the advent of the Global Financial Crisis, which saw several banks, including Bear Stearns and Lehman Brothers, fail.

Churchill was also impacted by the GFC. In 2008, when JPMorgan Chase rescued Bear Stearns and bought the failing investment bank, terms of that deal limited the merchant bank's ability to continue to invest in Churchill. Some of Churchill's mezzanine loans defaulted, and the firm couldn't lend. (Bear Stearns Merchant Banking changed its name in 2008 to Irving Place Capital.) In May 2010, Olympus Partners bought Irving Place's stake at a discount and invested a couple hundred million dollars to get the firm back on track, a person familiar with the situation said.

Over a year later, in November 2011, Olympus sold Churchill to the Carlyle Group, which was looking to expand its credit business. Olympus doubled its money with the sale, the person said. "[Olympus] wound up doing quite well," the person said. Olympus is currently known more for its industrial and business services deals, although it still invests opportunistically in financial services.

With the sale, Churchill became Carlyle's middle market senior lending business. Thirteen Churchill execs joined Carlyle, including cofounders Kencel, Randy Schwimmer, Chris Cox, and George Kurteson. One of the Churchill team's first acts was to raise a more than $1 billion private-to-public business development company, which ultimately went public through an IPO in 2017. (A BDC is a type of closed-end fund that invests in small and medium-size companies as well as distressed companies.)

Their time at Carlyle didn't last. In mid-2014, all four Churchill founders left. Kencel said he enjoyed running and managing his own firm. "And so I wanted to get back to doing that," he said. Others say their departure was not voluntary. Kencel and the other founders were treated poorly at Carlyle, a different person familiar with the Carlyle situation said. "They were definitely pushed out," the source said.

Carlyle could not be reached for comment.

The Churchill founders needed capital to seed their new firm. They found that with TIAA, a provider of retirement products that in 2015 was building out its alternatives business. TIAA did not have an affiliate that invested in private markets or credit. Jose Minaya, who was head of TIAA's private assets, had never met Kencel before. But he said he knew within 40 minutes of meeting him that investing in Churchill "made so much sense…Ken came with a team that was very able and had a good track record."

That year, in 2015, TIAA launched Churchill Asset Management by investing $300 million from its general account, according to Bill Huffman, Nuveen's CEO.

Outside of the $300 million, Churchill had little else; no clients, no AUM, and the company didn't even have offices. The Churchill founders did have one advantage—they were able to say they were the former Carlyle credit team, had a proven track record, and could raise third-party money, Kencel said. "It got us a lot of respect in meeting with investors globally," he said.

Nearly 10 years later, Churchill manages $50 billion across its debt and equity coinvestment strategies. It is one of the most active private lenders in the U.S. All of the founders, but for Kurteson, who retired, remain at the firm, which began offering equity to all its employees this year. "[Churchill] is doing fantastic. And we couldn't be any happier," said Nuveen's Huffman.

Not everyone is convinced that Churchill is a total success. One private equity executive, who has invested in credit, says the firm has benefited from a strong market for senior lenders. "No one has looked bad for the last five years. The real test is how [Churchill] does when the markets get bad," they said.

Today, Churchill has a good relationship with Carlyle. The firm has financed and invested in a number of Carlyle deals. Kencel said he considers David Rubenstein, one of Carlyle's three cofounders and cochairmen, a mentor. (Rubenstein appeared at Churchill's 2022 annual meeting where he interviewed TIAA's CEO.) "David Rubenstein is the person I probably admire more than anyone else in the business," Kencel said.

Carlyle, meanwhile, is still trying to ramp up its credit business, Bloomberg reported in August. At $190 billion, Carlyle's credit unit is the smallest among the five major U.S. alternative asset managers, the story said.

Kencel, nearly 10 years later, has taken a positive view of his time at Carlyle and subsequent departure. "It turned out to be the best thing that ever happened to me in hindsight," he said.