



Adam Blumenthal '89

Founder and Managing Partner,
Blue Wolf Capital Partners



CLASS
MBA Class of 1989

CURRENT POSITION
Founder and Managing Partner, Blue Wolf Capital Partners; Trustee and Investments Committee Chair, UAW Retiree Medical Benefits Trust

PREVIOUS POSITIONS
American Capital Ltd., New York City Comptroller's Office

YALE SOM HONORS AND VOLUNTEER SERVICE
Donaldson Fellow, 2008-09; Member of the Board of Advisors, 2004-07; Member of Advisory Board of the International Center for Finance

In September 2017, Adam Blumenthal, a member of the Yale SOM Class of 1989 and the founder and managing partner of the private equity firm Blue Wolf Capital Partners, received the 2017 Civic Champion Award from City Limits, a New York City-focused nonprofit investigative journalism news agency. The award recognized his work making investments that preserve union workplaces and promote economic development. We talked to Blumenthal about a career creating value for a range of stakeholders.

What is value? Can it be found in the pluses and minuses on a balance sheet? Or does it require a broader measure?

Adam Blumenthal has asked this question throughout a career that has led him from work as a community organizer to founding a private equity firm. "Value is an interesting concept," he says. "Obviously, it can mean market value. But I don't think that participating in a market and creating value are the same thing."

Blumenthal currently runs Blue Wolf Capital Partners LLC, a private equity firm that specializes in finding creative solutions for intractable problems. In this context, he says, "We think that value creation has to do with managing people better, in having a better strategy, getting and delivering a service at a higher quality for lower costs. Those things deliver better outcomes to people with less resources and less effort. That's at the heart of value."

Blue Wolf is a middle-market special situations fund that typically invests in companies in choppy industries, these days that includes manufacturing, forest products, and healthcare. The companies have a solid core but are experiencing operational or financial distress that is often further complicated by government, regulatory, or organized labor involvement in the value chain.

An example: Many forest products companies have sold off timber lands to focus on manufacturing. When Blue Wolf acquired Finch Paper in 2007, they similarly looked to focus operations. But instead of selling land to the highest bidder for an immediate return, the firm partnered with the Nature Conservancy and the state of New York to turn over 161,000 acres, the last large tract of privately held forest in Adirondack Park. The most ecologically valuable portion went to the state. Another portion went to the Nature Conservancy, which established a sustainable management plan that preserved its ecological value and multi-use function, continuing property tax payments and forestry jobs which were critical to the local economy, while guaranteeing the leaner Finch Paper a long-term supply of green-certified pulp. By aligning with the priorities of government, environmental, and economic priorities of key stakeholders, the business became more stable and more valuable.

Blumenthal's take on the process: "Seeing a different future state and creating a plan to get there, I don't see how you don't find that compelling."

In another facet of his work, Blumenthal has chaired the investment committee for the United Auto Workers Retiree Medical Benefit Trust for the last five years. The trust is a \$60 billion fund that pays the medical benefits of retired union workers from Ford, General Motors, and Chrysler. "We are unique in the American healthcare system in that all 700,000 of our beneficiaries are known. We have them for the rest of their lives, and we have no way to cost shift. That is, we have a pool of capital and nobody is ever giving us more."

Blumenthal continues, "To me that's the kind of challenge that is satisfying. It allows for value creation in lots of ways. You create value through the investment strategy by figuring out how to manage the assets across asset classes. You create value by being involved in population health for the beneficiaries. And you create value organizationally by having a strategy and an organization that's able to execute on both of those missions."

Being able to understand the full range of stakeholders is critical. A third of Blue Wolf's portfolio involves companies that depend on organized labor. "The ability to work effectively, communicate, and negotiate constructive solutions across sectors is so important," Blumenthal says. He says he approaches deals with unions with the aim of finding alignments. "I recognize their legal and economic rights. I recognize their power. But I also recognize the unifying interest in having successful businesses to grow and be competitive and create jobs." He added, "We pride ourselves on being able to find constructive solutions to intractable problems. We think we've created some groundbreaking agreements with unions."

Blumenthal's life before becoming an investor has proven to be an asset. "I spent four years as a community organizer," he says. "That gave me some insight, common language, and common experiences with people who go into organized labor."



Blumenthal's early career as an organizer emerged from a desire to address social problems that has been a thread weaving through many of his life choices. "I grew up in New York City in the '60s and '70s. That was a world where there were a lot of things that didn't work well. I was impatient to try to improve conditions that seemed unnecessarily difficult in society. I was 19 and sitting in a classroom didn't seem like the best way to spend my time. I'm not the only 19-year-old who's ever felt that way."

After his freshman year at Harvard, Blumenthal took time off to work on implementing the Community Reinvestment

Act in St. Louis, Missouri. The landmark agreement was aimed at improving deteriorating conditions in urban areas in large part by ensuring low-income communities had access to mortgages. “Remember, this was the era of Ronald Reagan and the Misery Index. Unemployment was high. Inflation was high. Interest rates were high,” Blumenthal says. “The idea that one agreement would solve all those problems and get people into houses was just not true. I was 20 years old. I barely understood what an interest rate was. I didn’t have the tools to really understand why it wasn’t true. I just knew I couldn’t get anybody into a house.”

He worked for several years in different organizing roles, but the value of the classroom had become clear. He returned to college and went on to Yale SOM. “I found having a problem and not having the tools to even understand why the problem was there was extremely frustrating. The promise that Yale held out and, I think, delivered on was introducing me to a broad and sophisticated array of tools that let me understand and help fix complex problems.”

Blumenthal has found those tools useful across a range of contexts: “There are obviously differences between government and business and nonprofits, but the fundamental activity of building organizations and creating value is similar. Among the important things that I learned at SOM was how to find the most effective way to create value in any organization.”

After graduating in 1989, he joined the private equity firm American Capital. He was the second employee and started before the firm had begun institutional fundraising. He stayed until 2002, in the process building a portfolio of more than \$1 billion invested in 63 middle-market companies and taking American Capital public. “I got to experience the world of quarterly earnings and public shareholders. Although the company had excellent growth and was quite successful, operating in a quarterly environment with a mandate to create steadily, consistently, and transparently growing earnings is not really consistent with the kind of deep turnaround and restructuring strategy that I think is satisfying.”

His next step was the New York City comptroller’s office, where he managed New York City’s pension funds as comptroller’s chief financial officer, a role he held from 2002 through 2005. “It was a great job for me. Navigating an unconventional governance system and making good decisions under pressure, that’s satisfying.” By an unconventional governance system, he means that the oversight boards included all of the city unions and all of the city’s elected officials. Justifying investment choices that directly impact such a disparate and notoriously demanding set of bosses is a prospect few other people would likely be excited about. By 2005, Blumenthal had raised the pension assets from \$65 billion to \$85 billion while improving the risk management structures.

But he felt a draw to return to his turnaround roots and launched Blue Wolf in 2005. The willingness to take on thorny problems and find solutions through cross-sectoral collaboration was a founding idea for the firm and remains a core value. It has also become an important selling point. “Today, there are so many private equity firms that if you are not the group that the stakeholders in the business think will give them the best future, you’re unlikely to be selected as the buyer, because other firms will get to your price,” he says.

In an industry that has at times been overly dependent on financial wizardry, this approach to creating value and building relationships can seem unconventional, but Blumenthal sees it as the future. “The innovation in the industry, oddly, is getting away from the financial aspects and closer to the industrial roots,” he said. “The more that private equity embraces the role of the classical entrepreneur, bringing industry insight and operational skills to building value, the less it feels like it’s driven by the ability to arbitrage capital markets or gain access to deal flow and capital, and the more successful it’s going to be. I think that’s a big transformation.”

Interviewed on August 14, 2017

[Related: Read a *Yale Insights* interview with Adam Blumenthal.](#)

This article originally appeared on the website of the Yale School of Management and is reproduced with permission.