Private Equity International

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21 years of change

Tracking the transformation of an asset class

PEI

Editor's letter

A front row seat to PE's transformation

Philip Borel
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First things first: I may have been invited to dust off my keyboard and write this letter, but the actual editor of this volume was my brilliant colleague Louise Fordham, whose vision and energy enabled its publication. By rights, the hello and welcome on this page should be Louise's.

The reason I get to address you here regardless is that I was editor 21 years ago when we first started *Private Equity International* and took tentative steps into covering the industry. "What's your business model?" an apparently sceptical David Rubenstein asked when we first met him at a conference in the very early days. Fortunately for us, it turned out we had one.

> **"By the time the GFC unfolded, the asset class had gone mainstream"**

To say the asset class was in its infancy then would be a mischaracterisation. As an investment model, private equity was well established, the seeds of the astounding growth to come already sown and sprouting. Still, few would have predicted at the time that two decades on, private equity as an asset class could no longer be labelled 'alternative'.

What followed was institutions around the world beginning to rethink investment strategies that had barely given private funds the time of day. Market conditions, and with them received wisdom, evolved in ways that led to PE being seen as a returns machine – beguiling and irresistible. Soon LP allocations had doubled, tripled or quadrupled. By the time the global financial crisis unfolded, the asset class had gone mainstream.

This transformation has continued ever since, and *PEI* has had a front row seat throughout from which to chronicle and comment on the action. It's been fascinating, and we're grateful to you, our loyal readership.

Today, with the age of cheap money ending and fresh challenges facing the industry, we're as enthusiastic about keeping up with it all as we were at the beginning. Enjoy our reflections on the story so far, and do stay tuned.

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Cover Story

Partners and rivals

David Rubenstein of The Carlyle Group and Blackstone's Stephen Schwarzman are pioneers of the multi-strategy private equity investment model. When the two met in New York to compare notes on how to run a global alternative investment business, David Snow looked over their shoulders.

David Snow

Clash of the titans

In 2003, PEI brought together Carlyle's David Rubenstein and Blackstone's Stephen Schwarzman to compare notes on how to run a global alternative investment business

On a sunny September day in 2003, I went to a well-appointed Midtown Manhattan office to conduct a big interview – David Rubenstein and Stephen Schwarzman, together in the same room, comparing notes about their respective efforts to navigate the two fastest rocket ships in the nascent private equity industry.

The interview was an early win for *Private Equity International*, which, having launched only two years prior in London, was eager to prove its international credentials by featuring big names from the US. I was beyond pleased when PR representatives for Rubenstein and Schwarzman agreed to the super-summit.

Like many disruptive industries, private equity had started out in obscurity, with a series of innovative transactions in the 1970s and 1980s. But these were dismissed by many to be one-off financial novelties fashioned by corporate debt. By the early 2000s, however, it had become clear that private equity was a business model that was repeatable and scalable, and among the biggest scalers were the heads of Carlyle and Blackstone.

The two were chatty with one another and confirmed that they frequently crossed paths on the LP fundraising trail and in the mega-deal arena. In fact, the two had seen each other just two nights earlier at a dinner organised by Jeffrey Immelt, then CEO of General Electric, who had gathered the heads of many private equity firms together to figure out what these entities were, exactly, that were now doing so much business with GE. Immelt was intrigued to learn that the leading private equity firms had become "relatively giant industrial complexes", said Schwarzman.

In 2003, Blackstone, co-founded and led by Schwarzman, had $25 billion in assets under management, and Carlyle, co-founded by Rubenstein, managed $16.4 billion. While Blackstone was larger, Carlyle was more global, with offices across the US, Europe and Asia.

Up until September 2003, Blackstone had only two offices – in New York and London. This was largely because, at the time, Schwarzman had not been satisfied with the video technology to support remote meetings. If he couldn't clearly see the eyes of a counterparty, he explained, he didn't want to do any business with them. Advancements in the technology had contributed to the firm's decision to establish a third office, which opened in Hamburg that month. "I know that sounds silly," said Schwarzman, "but it was extremely important to us."

Going global with tech

Rubenstein also observed that one particular technology was going to make it easier to run a global firm: e-mail. Before the advent of e-mail, which Rubenstein admitted he was just learning to master, it was "difficult to see" how a manager in Washington, DC might communicate effectively with an investor in Hong Kong.

No doubt e-mail and video conferencing accelerated the expansions of both firms in the intervening 20 years. More importantly, the early successes of firms like Blackstone and Carlyle convinced many large investors around the world to open up their portfolios to alternative investment vehicles of all types, with many of these bearing the brands of Blackstone and Carlyle.

Over the same period, GE's market cap has shrunk by more than two-thirds, showing how entirely possible it is for a legacy industrial complex to be outpaced and outshone by a group of surprisingly ambidextrous and ambitious dinner guests. ■

David Snow is co-founder and editorial director of Privcap, a video and creative-communications agency for businesses. He was editor-in-chief at PEI Group until 2010

Private equity through the years

Since publishing its first edition in 2001, PEI has been delving into the latest twists and turns in the asset class. From financial crises to the intricacies of fundraising, we round up snippets of our coverage over the last 21 years

2001

A look at the buy-side

In our first-ever issue, *Private Equity International* examined the fundraising environment. It reported things were looking up for buyout funds that had kept their powder dry through the buying hysteria of 1999 and early 2000.

"It's not always at the start of a recession that companies need cash… Initially the buyout market will be slow, but it will accelerate"

David Currie, managing director at Standard Life Investments

Interesting plays ahead for Asia

In the face of a difficult playing field brought on by the Asian financial crisis in 1997 and the technology boom and bust of 1999-2000, APAC investors had to work harder to attract capital.

"Momentum is growing in China and that should only continue following accession to the World Trade Organisation"

Marc Staal, chairman of the Hong Kong Venture Capital Association

2002

State secrets

US public pensions found themselves at the centre of a debate over the public's right to access information on state investments.

"Failure to comply with this order [to release the information] within 10 days of receipt may result in notification to the Office of the Attorney General for enforcement"

Alan Cote, Massachusetts' supervisor of public records

2003

New principles and practices

The European Venture Capital and Private Equity Association released its consultation document, *Governing Principles and Sound Practice in the Establishment and Management of Private Equity and Venture Capital Funds.*

A growing market

The secondaries market began to emerge as a significant component of private equity, as *PEI* discovered in its September 2003 cover story.

"All the big players are awash in capital. I actually think the more interesting area is finding smaller managers going after the 'widows and orphans' market [smaller partnership interests]"

A fund of funds partner

2004

Looking further afield

International business platforms became more attractive to US private equity firms, even within relatively small markets.

"Even if you're a middle-market company selling something to a Fortune 500 corporation, they'll say, 'We want to… partner with firms that can supply us globally"

A partner at a major US mid-market investment bank

Rocking with the brokers

Deal intermediaries became a crucial part of the fundraising process as the sophistication of sellers increased. As a result, *PEI* heard accounts that PE firms had begun to adopt a new, ring-kissing attitude towards them.

“I got invited to a rock concert recently. I was surprised – it's been a long time since anyone invited me to [one]”

An investment banker

2005

New territory

After the Carlyle Group launched operations in the Middle East for the first time, co-founder David Rubenstein told *PEI* that LPs were turning to markets where they saw untapped opportunities, such as Asia, Africa, Latin America and Eastern Europe.

“If anything, I'm surprised it didn't happen sooner”

David Rubenstein, co-founder of Carlyle

2006

Nerves in the Netherlands

As its influence grew, the Dutch PE industry came under attack from figures across the political spectrum.

“This ransacking of the country is not welcome”

Elly Blanksma, Dutch MP

2007

From red to green

Sir Richard Branson announced plans to raise his first private equity fund: a $400 million Virgin Green vehicle targeting opportunities in renewable energy and energy efficiency.

“There is a real opportunity here… Nobody is really doing private equity deals in the renewables and energy efficiency space”

A potential investor in the fund

2008

Making an exit

In spite of the burgeoning financial crisis, Barclays Private Equity made a 2.5x return on its £95 million sale of Kurt Geiger to UK mid-market firm Graphite Capital, according to a source.

“It's difficult to sell any retailer at the moment… You've got winners and losers all the time, and at the moment, this is exaggerated”

Steven Silvester, director at Barclays Private Equity

Moving on up

Brazil enjoyed increased capital inflows after US rating agency Standard & Poor's upgraded the country's status to 'investment grade' in Q2 2008.

2009

The house of Marley

Private equity firm Hilco Consumer Capital teamed up with the family of Bob Marley, contributing $20 million to a project designed to handle the singer's licensing and retail ventures.

Facing a tough crowd

The controversial Alternative Investment Fund Managers Directive was proposed by the European Commission and was met with scorn by fund managers.

“We did not have much time to prepare our proposal – we did not have much time to consult over it”

Didier Millerot, deputy head of asset management at the European Commission

2010

It's not over yet

As the financial crisis rolled on, LPs told *PEI* that private equity's return to the days of “plain vanilla buyouts” was a long way off.

“The healing process will be long and slow”

Michael Powell, head of alternative assets at the Universities Superannuation Scheme

Drumming up support
Sir Bob Geldof, co-founder of Africa-focused private equity firm 8 Miles, delivered the keynote address at *PEI*'s third Africa Forum. He argued that money is not an evil thing, but rather is amoral.

> For private equity, the question is: what next? The answer is: Africa

Sir Bob Geldof, co-founder of 8 Miles

Crisis after crisis
The industry grappled with the European sovereign debt crisis, with many fund managers in the region bracing themselves for a complete halt in financing.

> Given that much of the nervousness within the banking system is linked to the euro, I think we will be in limbo for some time

William Allen, founder of Marlborough Partners

Call to alms
The UK's social investment bank, Big Society Capital, told *PEI* that it wanted established GPs to set up socially orientated funds.

> There's no reason why we couldn't provide cornerstone funding, provided the fund was focused on social enterprises

Nick O'Donohoe, chief executive of Big Society Capital

Transparency push
The Institutional Limited Partners Association's proposals to develop a reporting template that LPs could use as a guide to track items such as fees and expenses was welcomed by experts.

> Having a common agreed-on set of standards seems logical and ILPA should have the clout to pull it off

Gregory Brown, finance professor at the University of North Carolina at Chapel Hill

2011 2012 2013 2014 2015 2016

Class struggle
A jovial remark at *PEI*'s Operating Partners Forum in Europe highlighted the tension that can occur between operating and deal teams, with the former implying they are often seen as 'second class citizens' despite PE's increasing focus on value creation.

> How many of you are deal guys? Don't be embarrassed, you can raise your hands

Jonny Maxwell, former head of Allianz Private Equity and Standard Life Investment

Oil opening
As the price of crude oil plummeted, unfazed managers and their LPs saw the drop as a buying window.

Open for business
IPOs were back on the menu in China 15 months after the country's Securities and Regulatory Commission put a halt to new listings. While some PE sellers welcomed the reopening, others worried it would impact dealflow and pricing.

> [China's] biggest risk in 2014 is the opening of the IPO market

Derek Sulger, partner at Lunar Capital

Brexit blow
On 24 June, the UK woke up to the results of the Brexit vote. In the aftermath, *PEI* caught up with private markets players to gauge their initial reactions to the news that the UK would leave the EU.

> On that morning, it seemed quite difficult to know how bad it was going to be, and to get a handle on quite how far it might go

Tony Brown, CIO at M&G Real Estate

Climate consternation

LPs pushed back after US President Donald Trump unveiled his decision to withdraw the US from the 2015 Paris climate agreement.

"Supporting [the Paris agreement's] goals ultimately benefits our members and their long-term retirement security"

Marcie Frost, chief executive of the California Public Employees' Retirement System

SPAC surge

Special purpose acquisition companies, already booming in the US, began making their way to Europe. But there remained reticence about how the phenomenon would play out across global financial markets.

SEC eyes PE reform

Gary Gensler caught the private funds industry's attention when he told a Senate committee that the US Securities and Exchange Commission was exploring "reforms" around conflicts of interest and disclosure of fees.

"Ultimately, every pension fund investing in these private funds would benefit if there were greater transparency and competition in the space"

Gary Gensler, US SEC chair

Commitment rethink

PE's heady fundraising environment left many LPs overallocated, forcing them to think carefully about which funds should receive commitments and how much they should get.

Rising above it

Soaring inflation prompted the US Federal Reserve and Bank of England to raise interest rates, but market participants seemed stoic about its impact.

"Nothing tells me that in a rising interest rate environment, you should necessarily [worry]"

The co-head of private equity at a Franco-German investment fund

2017 2018 2019 2020 2021 2022

Cracks appear at Abraaj

PEI delved into the accusations of misuse of funds at Abraaj; claims that prompted the emerging markets specialist to halt fundraising on its latest vehicle and its founder and CEO Arif Naqvi to step aside.

"Abraaj has voluntarily released investors from their commitments in Abraaj Private Equity Fund VI, and no longer intends to proceed with this fund in its current form"

Statement from **Abraaj**

ILPA weighs in on GP-leds

The Institutional Limited Partners Association issued its first best-practice guidance on GP-led secondaries to help increase alignment between LPs and GPs.

Vampiric comparisons

PEI reflected on private equity's most recent experience of being caught in the political crosshairs of a US presidential candidate after Democratic hopeful Elizabeth Warren proposed the Stop Wall Street Looting Act of 2019.

"Far too often, the private equity firms are like vampires – bleeding the company dry and walking away enriched even as the company succumbs"

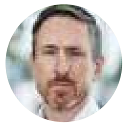
US Senator **Elizabeth Warren**

The world locks down

As the World Health Organization declared the coronavirus outbreak a pandemic and covid-19 lockdowns came into force, the private equity industry braced for one of its biggest tests yet.


The biggest show in town

Big private equity in the dock – the Treasury Select Committee had rarely seen the like. James Taylor was there.



James Taylor

UK PE reluctantly becomes front-page news

The media gathered in Westminster to watch MPs quiz senior buyout executives about the private equity industry's tax and business practices

In 2007, the world of UK private equity – hitherto largely the preserve of prestigious trade publications – was catapulted into the mainstream media glare.

This unwanted attention stemmed from a few high-profile deals that typified the industry's rapid growth and expanding reach in the run-up to the financial crisis: notably KKR's record-breaking £11 billion buyout of high street chemist Boots in 2007, and Permira and CVC Capital Partners' acquisition of roadside assistance company AA in 2004.

Critically, the latter had attracted the attention of the GMB trade union, which in 2006 turned up with a camel at Permira managing partner Damon Buffini's local church – a riff on the line in the Bible about it being easier for a camel to pass through the eye of a needle than for a rich man to enter the kingdom of heaven.

Bad press

Private equity soon found itself the subject of the wrong sort of headlines. For an industry used to operating in the background, this was a big test. And to begin with, it failed.

First, SVG Capital chairman Nick Ferguson made an unguarded comment to a *Financial Times* reporter about private equity bosses paying "less tax than a cleaning lady". The next day, it was front-page news.

A week later, the British Private Equity and Venture Capital Association was hauled in front of the House of Commons Treasury Select Committee – a group of MPs with a mandate to scrutinise the government's financial policies – to better explain PE's business model, tax treatment and its impact on UK companies. The session could perhaps best be described as a mauling, with the BVCA seemingly unprepared for the ferocity of the MPs' assault.

Which brings us to the events of this article: a second Treasury Select Committee hearing a few weeks later, featuring KKR's Dominic Murphy, Carlyle's Robert Easton, 3i's Philip Yea and the aforementioned Buffini. This was box office stuff: the committee room in Westminster was packed to capacity for their inquisition, with hordes of spectators forced to watch on a little TV next door.

Much to the disappointment of the tabloids, however, this was not the blood sport of the BVCA hearing. The 'Fund Four' survived largely unscathed, comfortably batting away questions on short-termism, job creation, conflicts of interest and even employee relations. For this they should be applauded – particularly as, your correspondent understands, there were some big firms that chose to draw their Mayfair blinds and turn off their phones when the call went out for volunteers.

Reputation management

Did the industry's encounter with the UK Treasury Select Committee actually change anything? In some ways no: debates around transparency, carried interest and private equity's role in society continue in various forms around the world today.

In practice, the biggest beneficiaries were probably financial PR firms; for many PE bosses, this episode was a painful lesson that they needed to take their reputation management a lot more seriously. So, while the industry still finds itself the subject of media, government and public scrutiny, it is at least better equipped to deal with it now. ■

James Taylor is head of communications for Bridges Fund Management. He was senior editor, private equity, at PEI Group until 2014

KEYNOTE INTERVIEW

Adapting to a new reality

Managers will need to focus on delivering alpha as the private equity industry faces a more volatile market, say Ares' Matt Cwiertnia and Scott Graves

The private equity industry has had to navigate stormy waters on several occasions during the 21 years that *Private Equity International* has been covering the market. Still, the industry has benefited from favourable economic conditions on the whole.

However, as high inflation and hawkish monetary policies return to markets for the first time in decades, the next several years could pose new challenges. Matt Cwiertnia and Scott Graves, co-heads of private equity at Ares Management, say that PE can handle those challenges, but firms will need to be able to generate alpha to do so.

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Q *PEI* launched in 2001, around the time of the dotcom bubble crash. Are there lessons learned from that period that are still relevant today?

Scott Graves: 2001 was an interesting time, right in the middle of a credit cycle. We learned a number of lessons from that cycle that still can be applied today, including our view that markets tend to over-react and over-adjust and that you cannot call the bottom. We believe that while the specific catalysts and circumstances of cycles change, certain themes and learnings can be applied across cycles.

Matt Cwiertnia: At the end of the 1990s, a lot of people were pouring money into the tech sector, based on what turned out to be an overly optimistic series of forecasts and a resulting herd mentality.

As most markets and valuations appreciated in 2021, we started to see certain dynamics that reminded us of the late 1990s. There were many signs of speculation in the marketplace, and we were seeing very optimistic forecasts on riskier investments, such as cryptocurrencies and meme stocks. Because the exuberance in the market reminded us of bubbles that we had seen previously, the Ares Private Equity Group focused on remaining disciplined with deployment in 2021.

Q The market has been favourable for PE across most of the past 21 years. How have market conditions played a role in a manager's ability to generate attractive returns?

SG: Until recently, most private equity professionals have been fortunate to have spent their careers investing in a period when interest rates and inflation have been low. We believe the low cost of capital created tremendous momentum in the business and investing cycles. Profits were enhanced in large part because companies could lever their balance sheets with cheaper debt and consumers could purchase more due to lower mortgage rates, easy to access credit and rising stock markets.

The only significant breaks were during the 2001 cycle, the 2008 cycle, the brief covid cycle in 2020 and now the down-cycle we are in today. The 2008 cycle was the longest of these, but the vast monetary and fiscal stimulus in the US brought us out of that cycle and created a sustained bull market led by balance sheet growth that lasted until 2020.

In hindsight, private equity managers generally could have maximised returns during this period by buying as much correlated market exposure, ie, beta, with as much leverage as possible, with a focus on pro-cyclical businesses. We think it was an environment for private equity where risk management wasn't rewarded.

Q Can managers use the post-global financial crisis playbook in this environment?

MC: We don't think so – our view is the paradigm for private equity has now changed. The post-GFC playbook was to buy great companies that were going to benefit from the recovery in the economy. It had a very supportive beta to it; a rising tide that would help lift all boats. Today, our opinion is that private equity managers need to generate alpha – instead of relying on beta. Managers need a playbook to help companies grow in an era that could be flat from a beta perspective for many years.

With our growth buyouts, we look to invest in companies where we believe that we can help them grow faster than their industries are growing and compound that growth over an extended period of time. Our average hold for buyouts has been about six years.

In addition, we invest in distressed across the public and private markets, and our deployment tends to ramp up during periods of heightened market volatility like today. This gives us an opportunity to invest in good companies with unhealthy balance sheets at what we believe are attractive creation multiples. Currently, we have been buying debt well below par value, and in the event of a debt-for-equity conversion, we could obtain control or significant influence of these companies for lower EBITDA multiples relative to recent transaction multiples.

At the same time, we can also use our public debt position in a company to develop a relationship with its management team or sponsor in an effort to create an attractive private capital solution outside of a formal restructuring process. In either distressed scenario, we seek to inject capital in companies for which we can be a catalyst for good and use our insights and resources to help them chart a path to growth.

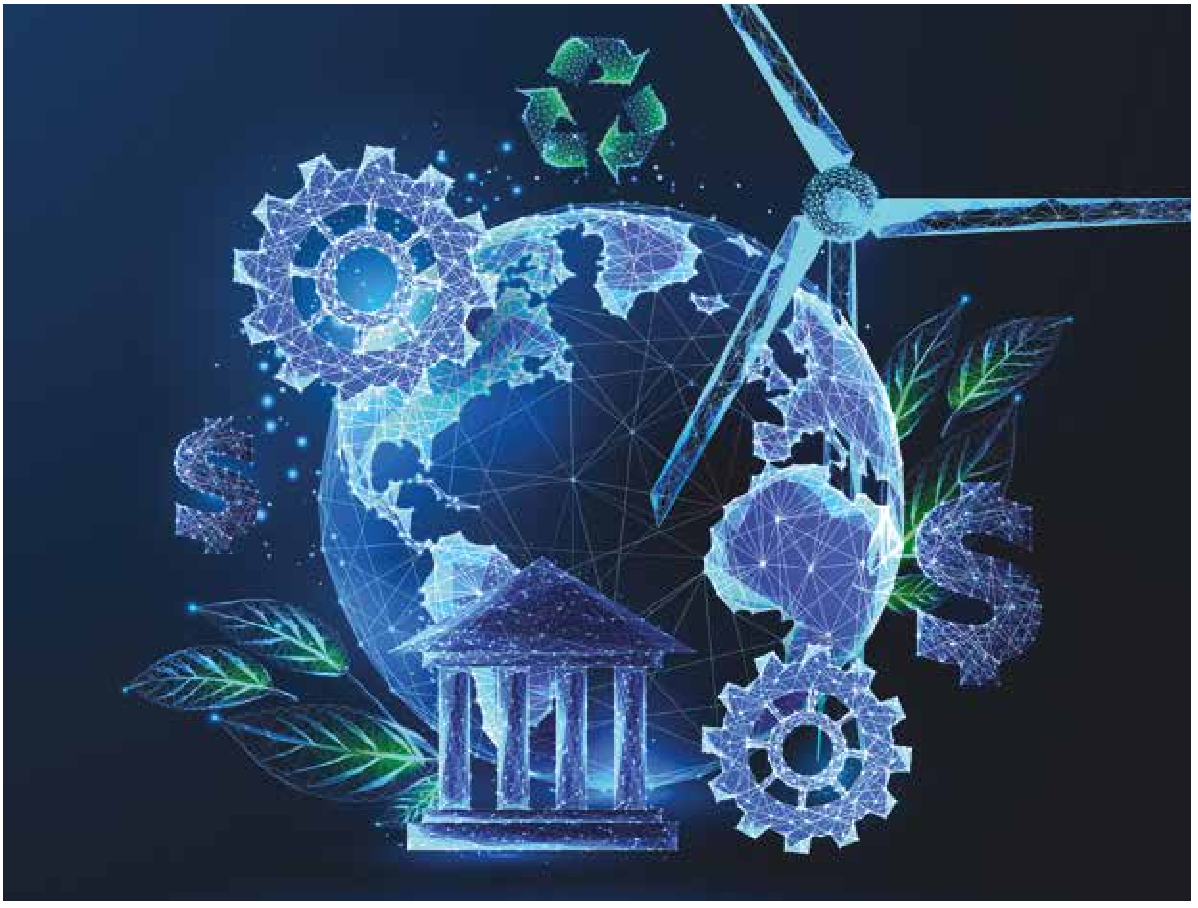
> *"We believe that while the specific catalysts and circumstances of cycles change, certain themes and learnings can be applied across cycles"*
>
> **SCOTT GRAVES**

> *"Managers need a playbook to help companies grow in an era that could be flat from a beta perspective for many years"*
>
> **MATT CWIERTNIA**

Q What advantages does having integrated buyout-focused and special opportunities teams provide a PE manager?

SG: It enables a manager to have a strong relative value lens. Comparing and contrasting growth buyout opportunities with distressed opportunities in underwriting forces a manager to better reconcile risk and opportunity. We believe this is important as these investing strategies tend to be more attractive at different times. When the markets are healthy, that environment is more supportive for growth buyouts and healthy special situation investments. In a distressed market at the weaker part of the business cycle, we have an environment where stressed and distressed private transactions further up the capital stack tend to offer greater security, have potentially better risk-reward, and are often more actionable.

When you have a challenged economy, transaction volumes tend to drop. In our experience, you do not see the same levels of IPOs and M&A tends to slow down. Dealflow slows down because sellers still want to receive the old multiple and buyers want to acquire at the new multiple, so it takes time for M&A markets to return to equilibrium. In that period of time, we find we can source attractive distressed opportunities that can help portfolio diversification. ■



Q The term 'ESG' hadn't even been coined in 2001 but it has recently become something all PE managers need to consider. What does the future hold for ESG in PE?

MC: In the next few years, we believe there will be greater differentiation in the industry of who is truly committed to ESG. As times get tough, some managers will likely move ESG to the backburner. However, from our perspective, ESG is not a 'nice to have'; rather, it needs to be embedded in a PE manager's culture.

As a firm, Ares has sought to be a leader among alternative investment managers when it comes to our environmental and social impact, both by hiring senior resources and through ESG implementation in strategies. Additionally, we have partnered with peer firms in order to enhance the alts industry's focus on ESG. For example, a growing focus for Ares is what we refer to as shared prosperity, and we are a founding partner of Ownership Works, which is a non-profit dedicated to providing more employees with chances to build wealth through equity ownership.

The innovation and maturation of ESG programmes within the PE industry has been exciting to be a part of, and we are bullish on the long-term prospects for these initiatives.

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Experienced Team. Deployment Across Cycles. Partnership Approach.

With $35.3 billion of assets under management, Ares Private Equity offers both control and non-control hybrid capital solutions across traditional buyouts and distressed opportunities.

Ares Private Equity seeks to actively deploy capital in a disciplined manner in both benign and dislocated market environments, primarily focused on middle market companies.

The changing face of private equity fundraising

Fund sizes, LP communications and investor appetite for particular structures are all markedly different from the heady days of pre-crisis fundraising, writes Alex Lynn

There was a time when private equity fundraising was, at least to some extent, rather predictable – one need only have looked at when a firm's last fund was raised to form a rough idea of when it was likely to return to market.

Fast-forward to 2022, and fundraising timelines are anyone's guess. Many firms are now in a near-continuous state of fundraising, either due to a proliferation of strategy launches and platform extensions, or because the process can take so much time that one ends as another begins.

Case in point: firms were waiting just 16 months between successive fundraises as of 2020, nearly three times faster than the 47-month wait five years prior, according to MJ Hudson's latest *Private Equity Fund Terms Research*. As a result, private equity fundraising has become more congested than ever before, with firms seeking more than $1.2 trillion between them as of 20 July 2022, according to *Private Equity International* data.

Here's how the fundraising landscape has evolved over the past two decades.

> *"Interim communication is more critical to the success of a fundraise"*
>
> **JACKSON CHAN**
> **Thrive Alternatives**

Fundraising totals

Perhaps the most notable change over this period has been the amount of capital raised for private equity. In 2008 – which partly reflected the heady pre-crisis fundraising environment and is also the furthest back *PEI*'s data reaches – some $442.4 billion was raised across 938 funds. Last year's total was nearly double that, with $780 billion raised across 1,890 funds.

Average fund sizes are also creeping up, as LPs seek to consolidate relationships with a smaller pool of managers. The average fund closed on $542.3 million in the first half of 2022, compared with $350.8 million in full-year 2016 and $375.9 million in 2009. Only in 2008 did they come anywhere close to that number, at $471.6 million.

Of course, growth hasn't been continuous. Fundraising in the years following the global financial crisis was muted to say the least: GPs raised just $248.9 billion in 2009 and $204 billion in 2010.

The pre-GFC market was "still relatively immature and the majority of firms were jockeying for position, but importantly most of the market got funded and that leads to perhaps one of the most relevant take-aways – it was a lot easier to raise money for firms on average pre 2008", Warren Hibbert, fundraising veteran and founder of placement firm Asante Capital, notes.

"There was a large supply of capital entering private markets – initially primarily private equity – and relatively few players and hence all you needed was some time at a reputable investment bank or consulting firm, some entrepreneurial spirit and you were off."

One key outcome of the GFC was bringing the industry under the purview of regulators. Among the wide-ranging 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act was the Volcker Rule, which – though it didn't fully come into force until 2015 – limited the amount of capital big players like banks could invest in the asset class.

Mega-managers

It wasn't until 2016 that fundraising surpassed 2008's total: funds raised $3.84 trillion between 2016 and

> *"Whilst there is a premium attached to returns, there is a perceived 'safety net' provided by the largest managers around the world"*
>
> **WARREN HIBBERT**
> **Asante Capital**

2021, almost double the $1.97 trillion collected in the preceding five years.

Much of this growth can be attributed to the handful of firms such as KKR, Blackstone and the Carlyle Group that are increasingly transforming themselves into one-stop-shops for private markets investing. KKR broke records to reach the top of this year's PEI 300 ranking, having raised $126.5 billion for private equity alone over the past five years. Blackstone came second with almost $82.5 billion raised for the asset class.

These firms are responsible for the return of the vast mega-funds originally seen (albeit less frequently) immediately prior to the GFC. Blackstone, for its part, is reportedly seeking $30 billion for its latest flagship, having raised $26.2 billion for its predecessor in 2019. Carlyle is seeking $22 billion for its Fund VIII and EQT €20 billion for its Fund X.

"The bifurcation is staggering and sends a very clear message that whilst there is a premium attached to returns, there is a perceived 'safety net' provided by the largest managers around the world, who for the most part have been around the longest too – so clearly [there's] some survivorship bias," Hibbert says.

He notes that "the largest are getting larger at an ever-increasing rate", leading to another major change in the fundraising market – "the evolution of many GPs into global asset managers, who once started life as a small PE fund and now manage hundreds of billions in almost every capital market product you can imagine – and imagining more is where a lot of their attention is focused today".

Mega-firms are often publicly listed and therefore have an incentive to raise increasingly large sums of fee-bearing capital across bigger funds and new strategies. With the number of listed firms increasing – EQT, TPG and PEI Group-owner Bridgepoint have all gone public in recent years – so too might the number of mega-funds scooping up vast amounts of LP capital.

LP communication

With many firms now either in a constant state of fundraising, or at the very least pre-marketing their next vehicle, LP communication also becomes much more frequent. This dynamic has been exacerbated in 2022 by a highly congested fundraising market, which means GPs need to warn LPs well in advance to set capital aside for their upcoming fund or risk missing out on an allocation.

"Interim communication is more critical to the success of a fundraise," Jackson Chan, co-chief executive of GP advisory Thrive Alternatives and a former managing director at Eaton Partners, says. "GPs cannot just show up when they are fundraising – staying in front of LPs in between fundraises is equally, if not more important, and re-ups are not a given these days."

Beyond proactivity, LPs have also come to expect far greater transparency from their GPs in recent years – something that might have seemed unthinkable two decades ago. In 2007, Carlyle co-founder David Rubenstein told *PEI* that "even if every private equity firm agrees to disclose every single thing about everything we do, that isn't going to dissipate all the objections" to the asset class.

In 2022, LPs are increasingly seeking not only granular detail about a fund's underlying portfolio, but also esoteric data relating to ESG and impact investing KPIs. For some investor relations professionals, a lack of standardised demands and metrics has developed into an administrative headache.

However, the emergence of industry groups such as the ESG Data Convergence Initiative, the creation of which was led by two private markets heavyweights – the California Public Employees' Retirement System and Carlyle – and comprising other GPs and LPs representing more than $24 trillion in AUM at the end of August 2022, should go some way to resolving these issues in the future.

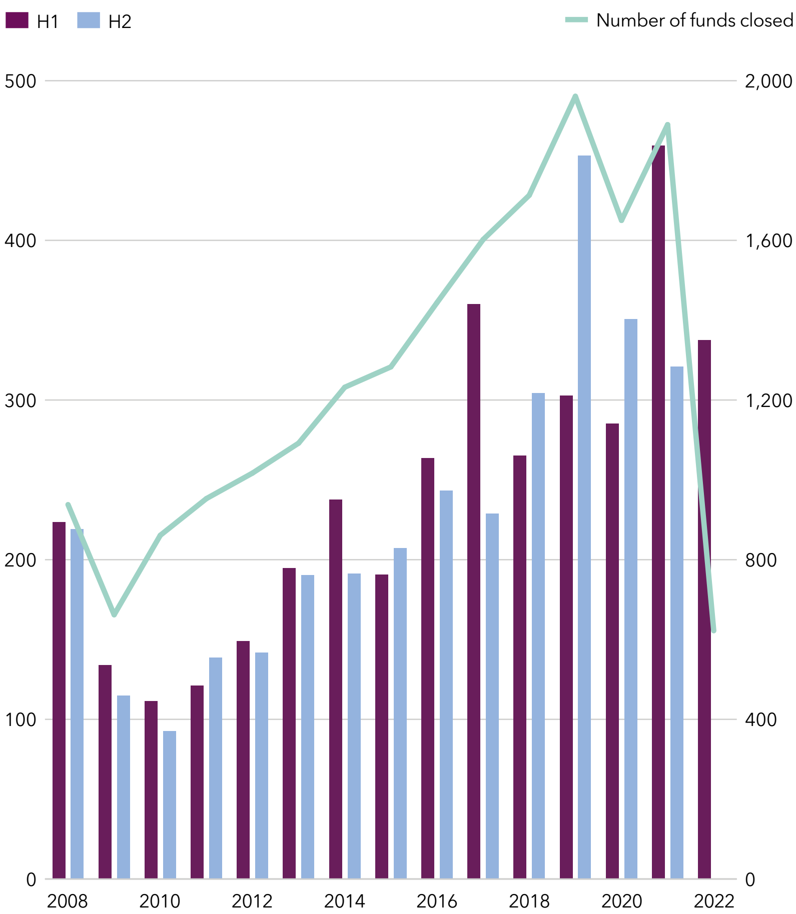
"Today, ESG and DE&I themes are an integral part of the decision-making process for most LPs," Niklas Amundsson, a partner at placement firm Monument Group and a former partner at MVision, says. "However, this is not a one-way street, as GPs too have become increasingly focused on the sources of funds, wanting to align themselves with ethically like-minded investors as they look to a future of multiple fund cycles."

The method through which GPs communicate with LPs has also shifted, particularly during the pandemic. "In the 2000s, fundraising was very much a physical sport; managers had physical data rooms in their offices, where they stored hard copy documents in giant filing cabinets," says Amundsson.

"Administrative or junior staff were often assigned to sit in and oversee LPs' due diligence, making sure all documents were put back where they belonged and not removed. In the 2010s, managers would travel to conduct in-person fundraising meetings, but most GPs had moved over to virtual data rooms, offering security features such as watermarking of documents and non-downloadable files.

"Today, most introductory meetings take place over Zoom and many VDRs have pre-recorded videos – with subtitles in multiple languages – of interviews with portfolio company CEOs and tours of their offices."

Capital raised by private equity funds ($bn)



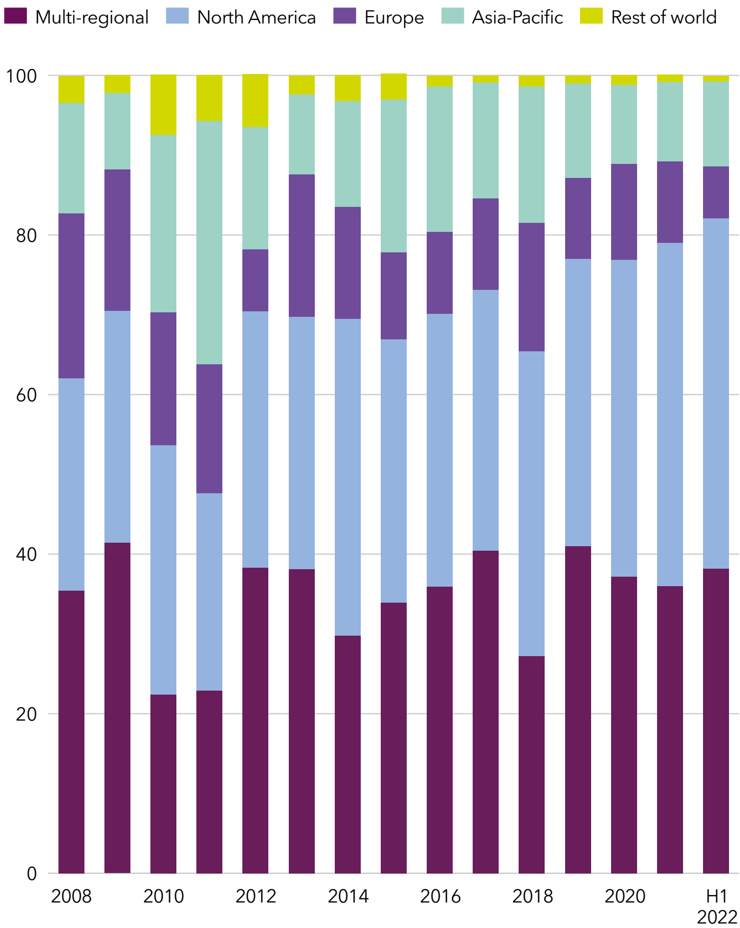
> *"In the 2000s, fundraising was very much a physical sport; managers had physical data rooms in their offices, where they stored hard copy documents in giant filing cabinets"*
>
> **NIKLAS AMUNDSSON**
> **Monument Group**

Placement agents

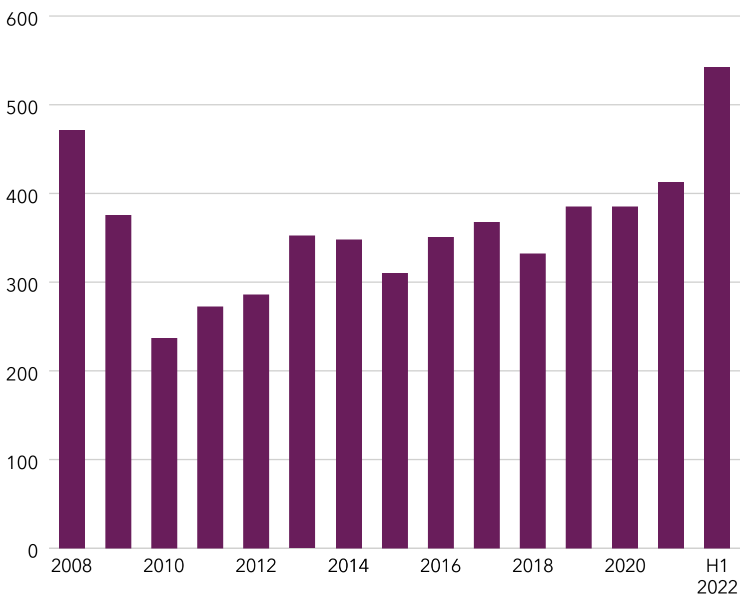
Back in the heady days of 2006, fundraising was a relatively straightforward business. "Pre-crisis, there were a lot of placement teams whose model was effective and sustainable in a boom," one placement agent told *PEI* in 2011. "They essentially threw a pitch out there, and if it stuck with a particular investor, great. If it didn't, they'd just move on to the next one."

Since then, a burgeoning GP advisory and placement industry has emerged to help firms raise funds or make new LP relationships. In recent years, however, the demands placed upon these intermediaries has shifted.

Proportion of fundraising by regional focus (%)



Average fund size ($m)



Source for all charts: Private Equity International

"[There's been] growth of regional fundraising specialists against the more traditional global placement agents," says Thrive's Chan. "GPs and LPs are just demanding a different level of focus and service – the old model of global placement agents is broken."

Placement agent models are shifting in many ways. Some are taking mandates from more established GPs that, unlike emerging managers that might need help with the entire process soup to nuts, instead wish to diversify their LP base into regions where they have limited relationships or understanding of local nuances. Rising appetite for co-investments over the past decade has also prompted some placement firms to bulk up their direct fundraising teams, which raise capital on a deal-by-deal basis rather than for blind-pool funds.

Different structures

An ongoing trend in private equity fundraising is a shift in some LPs' appetites towards structures beyond the traditional blind-pool fund. Separately managed accounts are one such example.

These have become an increasingly significant source of new commitments for many large asset managers: the largest LP commitment tracked by *PEI* data in 2021 was not to a commingled fund but to an SMA: CalPERS' $1.4 billion mandate with a Summit Partners-managed vehicle. CalPERS has been prioritising "cost-advantaged" economics via fund interests, co-investments and SMAs to bolster allocations and returns.

Many investors over the years have also developed an appetite for co-investments, which offer direct exposure to choice assets with favourable economics attached. Such deals also tap into rising LP demand for transparency.

"What I like about [co-investment] is it enables investors to look under the hood," Amanda Tonsgaard, head of investor services and communications at Triton, said at *PEI*'s Investor Relations, Marketing & Communications Forum: Europe 2022 in October. "I don't think it's going to go away." ■

KEYNOTE INTERVIEW

Fundraising's two-decade transformation

The growth and diversification of private equity's investor base has required GPs to take an increasingly sophisticated approach to securing capital, say MVision's Mounir Guen and Hussein Khalifa

Q When you compare the investor base and fundraising market today to when you formed MVision in 2001, what has changed?

Mounir Guen: The market has completely transformed. Twenty years ago, the industry was significantly smaller – raising a $1 billion fund was a big deal – and the investor base consisted predominantly of US pension funds, endowments, foundations, and a handful of sovereign wealth funds in the Middle East and Asia. European managers focused on domestic markets and could rely on domestic investors to cover all their funding requirements.

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Those dynamics shifted rapidly through the 2000s. There was an acceleration in investor demand and programmes doubled in size and then doubled again and again. The Canadian institutions became a force and investors from Asia and Australia came into the market in greater numbers. Institutions grew their programmes by upping the number of manager relationships. It wasn't unusual to see LPs with north of 100 GP relationships.

We did a lot of work through this period to find new teams and support the spinouts of captive firms into standalone entities; I recall periods when 90 percent of our workload would be focused entirely on spinouts. We also worked with some great names in Europe, helping them to grow into pan-European firms raising capital not only from local investors but also investors in the US and beyond.

If I look at where things stand now, the investor base has continued to grow, both in terms of geographical scope and assets under management. This has reshaped the market. Cheque sizes have increased materially, and portfolio construction has become

> *"The emergence of data rooms has been transformative"*
>
> **MOUNIR GUEN**

more sophisticated. There was minimal co-investment or secondaries exposure in the early 2000s, and direct investment accelerated onto the radar when the Canadian institutions became a force in the market. Today, a typical programme might have a primary allocation of 40-50 percent at the most, with 20-30 percent going into direct deals and co-investment, and the rest in secondaries.

This has led to investors consolidating GP relationships, as generally only the larger platforms have the scale to offer meaningful co-investments. Many investors now target 40 to 60 relationships – with some reducing to 30 – and may engage funds of funds to handle small-cap exposure.

Hussein Khalifa: A major shift has been the bifurcation of the LP base between investors focusing on larger funds and those investing in smaller managers. For the big LP programmes that have scaled at pace, minimum cheque sizes have had to increase to sustain deployment targets and keep GP relationships at a manageable level. Meanwhile, new entrants and smaller programmes have focused on the mid-market.

Another interesting development has been the movement of key people within the LP community. In the early 2000s, when there were only a handful of institutions with meaningful PE programmes, there wasn't anywhere to move to. As the investor base has grown there has been a natural increase in the volume of staff changes across institutions. This has created new challenges and opportunities for GPs. Their key point people at an institution can move on and then the GPs need to rebuild and refresh relationships. By the same token, when an investor moves on that opens up new relationships with other institutions.

Finally, it is important to note the rise of the private wealth investor base. We have seen the emergence of new platforms that are opening up the asset class to more individual investors and family offices by creating products that package up exposure to a wide range of funds at low cost. This is the next big growth area for private equity.

Q How is digitalisation changing the LP-GP dynamic? Are personal and physical interactions still important, or can digital tools replicate and replace this?

HK: The lockdown period accelerated the use of digital tools to communicate and assess new investor opportunities. It took a few months for LPs to adapt and reformalise processes around things like what video conferencing tools to use, how to manage investment committee voting and security, but digital interaction has become an established part of the LP-GP interaction.

This has helped to streamline the process. LPs and investor relations partners aren't buried under heavy travel schedules and LPs have been able to engage with a wider pool of GPs because it is so much easier to move from one session to the next. GPs can engage with investors from the US, Europe and Asia in a single day, which is quite remarkable when you consider how difficult that would have been before video conferencing took hold.

However, face-to-face contact is still incredibly valuable. Often LPs will take the first meeting on video call and then decide who to invest time with in-person. It has made GP-LP engagement so much more efficient and provided GPs with a clear signal for when there is genuine interest from an LP.

Q Through your time in the industry, how has best practice developed in relation to fundraising execution?

HK: Running an organised fundraising process has always been important, but forward planning and identifying the LPs you want to target has become much more intensive and sophisticated.

The fact of the matter is that LPs are incredibly busy managing expanding programmes and to keep on top of their re-ups. LPs also have a more specialised approach to investing. If you want to capture the attention of investors, you need to have the right look and be able to demonstrate that your firm's investment strategy is a fit with what the LP is trying to do. You need to target LPs more carefully.

Good execution has also evolved beyond laying out your performance in a clear way. You must also put in the work to show that you have built a sustainable, institutionalised business that has facilitated succession and incentivised the next generation of leadership through meaningful equity ownership. You cannot just coast through on your name.

This has become a crucial point for LPs, who want to invest with managers over decades. LP due diligence on managers is intensive and investors want to avoid manager churn and restarting evaluation processes with new firms every 10 years.

MG: Twenty years ago, a GP would meet with LPs once a year at the annual meeting and there would be virtually no other communication with investors until it was time to fundraise. There were also no data rooms. The pitchbook and private placement memorandum would go around and then LPs would come in for multiple meetings over a period of three or six months and ask lots of questions. It would take longer to secure commitments.

Now we recommend regular monthly communication and meeting in person at least three times a year. Reporting on portfolio performance has also become much more transparent and frequent. You don't just pull together your materials once every few years when you fundraise.

The emergence of data rooms has been transformative. Data rooms were populated with thousands of pages of documents, FAQs and questionnaires. We did a huge amount of work to pioneer data rooms, and, by anticipating what information LPs would require in advance, we found that the fundraising process could be accelerated, and managers could progress with LPs over two to three meetings at the most.

Data rooms should now be updated monthly, at a minimum, and by the time the fund comes to market the manager should already be at Olympic-level fitness.

Q Where have you observed the biggest changes when it comes to regulation?

MG: Compliance and regulatory oversight have expanded. A third of my time is now spent overviewing regulation.

> *"A major shift has been the bifurcation of the LP base between investors focusing on larger funds and those investing in smaller managers"*
>
> **HUSSEIN KHALIFA**

What has been perplexing has been the amount of regulation focused on fund marketing. I agree with the regulation governing what information GPs can disclose during the fundraising process on portfolio performance and projections, for example, but this has ironically deprived LPs of valuable data points that could inform manager selection decisions. There needs to be recognition that PE has grown up into a well-run asset class that has come through extreme market cycles, including covid and the global financial crisis, and that GPs are sitting opposite experienced, sophisticated institutional investors.

Q When did ESG first become a factor in fundraising and to what extent does it now determine fundraising?

MG: ESG started out with questions around governance in the GP but has expanded to encompass all aspects of a firm's operations, as well as what is in its portfolio. LPs now conduct extensive separate due diligence focused on ESG. The rigour and precision of this work has grown substantially, and it factors into the final decision on whether to commit to a GP or not. ESG is here to stay.

HK: There is also recognition across the industry that diversity is important because it predicts better results and avoids organisations sliding into groupthink.

As ESG has gained traction, it has evolved from a broadly defined concept covering a wide range of areas into something that investors are breaking down in more detail. The 'E', the 'S' and 'G' are increasingly viewed as individual categories and you will see each investor focusing on particular categories, in line with their organisation's overarching aims. ■

Mounir Guen is CEO of MVision and Hussein Khalifa is a founding partner

MVISION

A history of fundraising firsts …

2001-2005

MVision Private Equity Advisers was founded in 2001 in London. From there it started to build a platform of European venture capital, buyout and turnaround funds. The group was instrumental in raising capital for funds that are landmark names in Europe today. In 2003 MVision established its American operations in New York, worked with top US GPs and raised its first energy fund in the United States.

2011-2015

MVision opened its Asia-Pacific office in Hong Kong in 2012 and branched into "rest of world" real estate and large pan-Asian products. This included raising capital for a now leading Asian infrastructure group. MVision completed its first direct transaction in India in 2013. During this period the group was involved in its first official secondary transactions and remained very active in Latin America.

2016-2021

MVision advised on its first royalties and aircraft leasing funds and helped raise a number of special purpose vehicles in the technology and payment industries. The group raised successor vehicles for long-standing clients and continued helping to create new GPs in Europe, North America and Asia. MVision also raised substantial funds for a client's secondary business across multiple strategies including private equity, infrastructure and real estate.

2001 → 2006 → 2011 → 2016 → 2021

2006-2010

With its reach into Australia, Asia and Africa, MVision was able to raise global funds and was instrumental in the creation of many new fund managers. The group raised first time funds in Europe and numerous other countries. MVision helped create a leading infrastructure player and led the placement industry, working on a lot of firsts in real estate, telecommunications, Chinese venture, credit products and green funds. Its first direct transaction was completed in Latin America.

PRIMARY

SECONDARY

DIRECT

STRATEGIC ADVISORY

TODAY AND BEYOND…

MVision has a proven track record of helping to shape and create some of the world's leading GPs. We pride ourselves on maintaining long lasting relationships while continually building new ones. With an ethos of creativity and spirit, our team is uniquely placed to take a more sophisticated and targeted approach for our clients, with a key goal of delivering value whilst helping them fund their businesses through primary, secondary and direct transactions across the alternative asset classes.

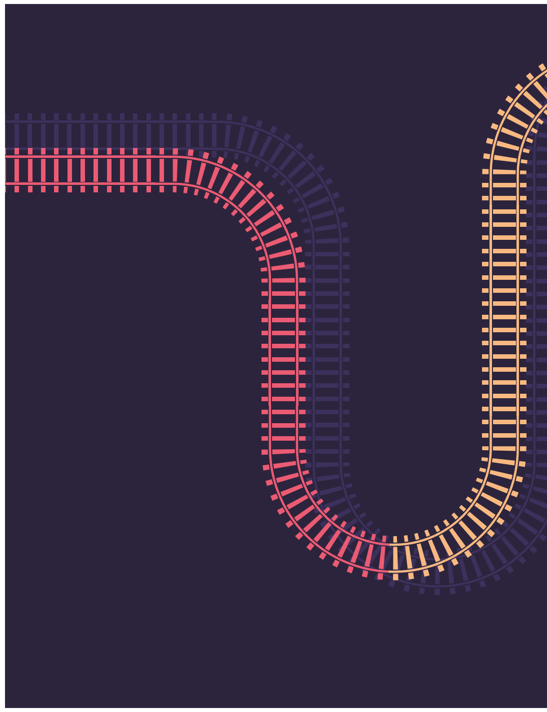
"We create, we raise, we help build businesses for the future"

Mounir Guen

21 years experience	**210+** Capital raisings advised by MVision	**110+** Vehicles from repeat clients	**40+** First time vehicles raised/advised	**10+** Transactions advised

More than **$190 billion** committed to funds advised by MVision

Secondaries' journey to the mainstream



The secondaries market has come a long way over the past two decades, writes Adam Le

When *Private Equity International* published its first issue in December 2001, the trading of second-hand interests in private equity funds was still in its infancy. Annual deal volume figures – tricky to obtain from that time – show that secondaries market volume hit $8 billion for the first time in 2005, suggesting that the figure for 2001 was likely in the single-billion dollars.

Fast forward 21 years and secondaries was a market worth around $134 billion in 2021, according to data from investment bank Greenhill. It's also a very different one to that of 2001, when LP portfolio sales – where an institutional investor sells its stake in a limited partnership to a replacement LP – were the dominant transaction type. Today, these types of deals represent roughly half the market, with the other half comprising so-called GP-led transactions in which sponsors sell assets they own into continuation funds that they go on to manage.

For all its growth, the secondaries market is still in its early innings, according to Verdun Perry, global head of Blackstone's Strategic Partners secondaries unit, speaking at an industry conference in September. "I would argue we're still in the very early days of growth – not just in private equity but the secondary market."

In some ways, the secondaries market's growth has been a rod for its own back. Regulators such as the US Securities and Exchange Commission have cast a spotlight on some sections of this niche to ensure that investors in private markets are not taken advantage of. At the time of writing, the SEC was seeking public comment on a raft of proposals that include major restrictions and requirements on how some secondaries processes are run.

Origins and growth

The first ever secondaries trade is widely believed to have occurred in 1979 by venture capitalist Dayton Carr. Carr was connected to IBM chief executive Thomas Watson from their days at Brown University and its sailing club. When Watson was selected by US President Jimmy Carter to become ambassador to the USSR in 1979 and needed to dispose of his personal holdings in some VC funds, Carr rounded up the money to buy Watson's positions.

"It is widely accepted as the first time a limited partnership interest in a private equity fund had been purchased and transferred," Drew Reilly, a managing director at Venture Capital Fund of America, told affiliate title *Secondaries Investor* in 2020. VCFA – the world's first secondaries fund – was founded by Carr in 1982.

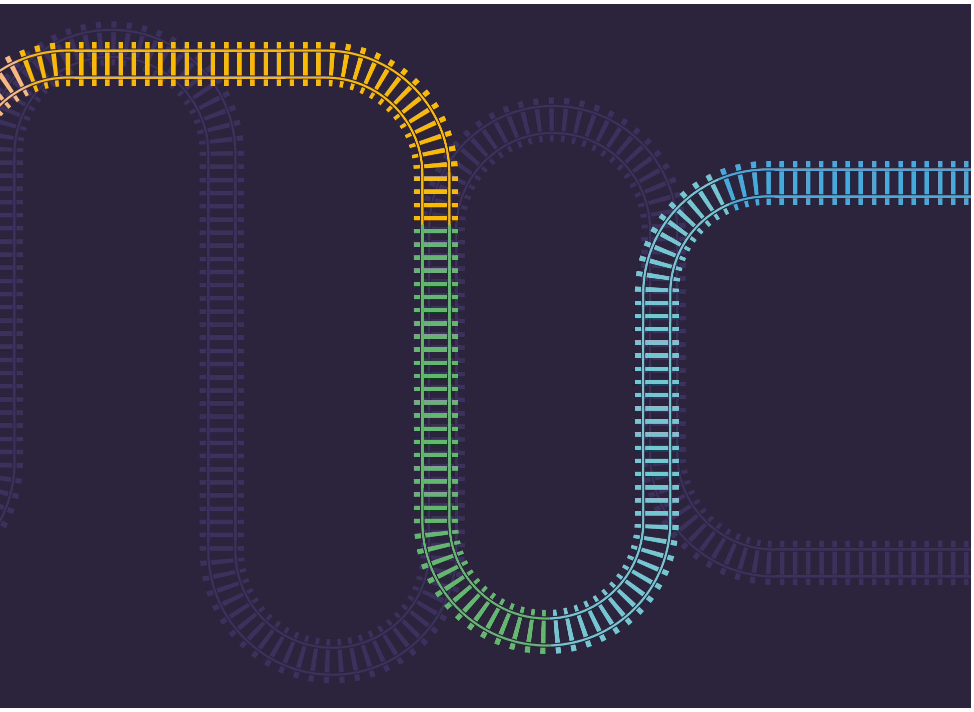
Over the following two decades, secondaries could hardly be called a 'market', with but a handful of firms engaging in buying up investors' positions in limited partnerships. In 1988, the few secondaries firms that did exist had funds smaller than $50 million in size, according to research by Coller Capital, a pioneer of the industry.

By 1990, Chicago-headquartered Adams Street Partners had raised the largest pool of dedicated capital for

$134bn

Secondaries deal volume in 2021

Source: Greenhill



secondaries, wielding £111 million. It would take another decade for deal sizes to reach significant levels. In 2000, the year prior to *PEI*'s debut issue, Coller executed the first $1 billion-plus transaction, acquiring UK bank NatWest's private equity portfolio following the bank's takeover by Royal Bank of Scotland.

Two key events around the end of the first decade of the 2000s helped catalyse the secondaries market's growth to the levels it finds itself at today. The first was the global financial crisis, which initially led to a drop in deal volume as many buyers and potential sellers found themselves unable to agree on pricing.

The second was regulatory responses in the aftermath of the GFC, aimed at preventing the kind of systemic risk that almost brought down many global economies.

The Volcker Rule, Basel III and Solvency II aimed to limit the proportion of riskier assets that financial institutions could hold on their balance sheets. Secondaries dealflow related to these regulations took a while to materialise, and when it did, proved a boon for buyers of second-hand LP stakes.

A new asset class

Investment firms and asset managers looking to capitalise on a growing sub-asset class have enjoyed being able to mirror the market's growth. At the start of the GFC, funds focusing on secondaries raised just $8.9 billion, per *PEI* data; in 2020 the strategy raised $98.8 billion, a record high. Last year, secondaries funds had their second-highest year ever with $69.9 billion raised – a sign that LP appetite for the strategy remains healthy.

> *"There's so much stratification now and so much choice for institutional LPs… that's the big shift"*
>
> **SUNAINA SINHA HALDEA**
> **Raymond James**

Indeed, LPs say they are keen on backing secondaries funds. According to *PEI*'s latest *LP Perspectives Study*, published in December 2022, 56 percent of LPs plan to commit to private equity secondaries funds over the next 12 months – exceeding the previous high of 53 percent recorded in the 2019 study.

Most LPs have now decided they want secondaries to be a part of their portfolios as they seek out further diversification in their private markets playbooks, says Sunaina Sinha Haldea, global head of private capital advisory at Raymond James: "There's so much stratification now and so much choice for institutional LPs… that's the big shift."

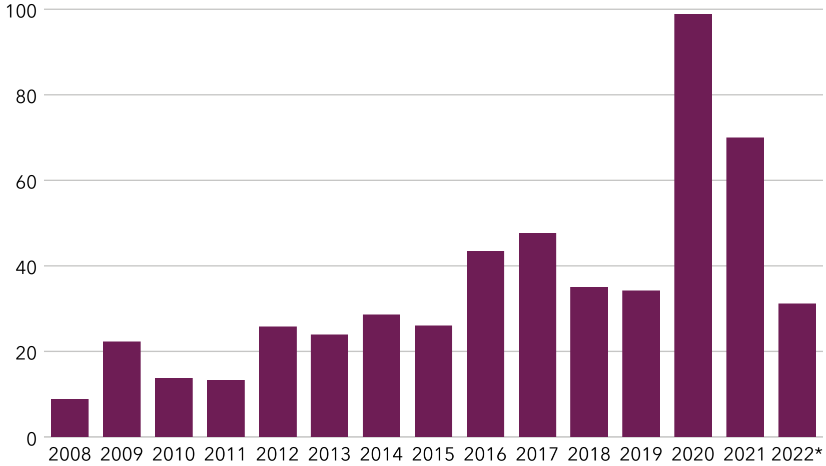
GPs sell assets to themselves

One growth area of the secondaries market that has received much attention in recent years is the rise of so-called 'GP-led secondaries'.

In these transactions, a sponsor arranges an optional liquidity process for LPs in one of its funds, with the idea of moving one or more assets out of the fund and into a separate 'continuation vehicle' that the sponsor will continue to manage. When managed well, such processes can provide liquidity options to LPs wishing to cash out; give LPs wanting to remain exposed to a set of assets the ability to do so or even increase their exposure; allow secondary capital to come in and gain exposure to often high-quality assets; and give the GP more time and capital to create further value for the set of assets.

When managed poorly, such deals can highlight inherent conflicts of interest between the GP, its LPs and the incoming secondaries buyers, particularly when it comes to the pricing of

Fundraising for dedicated secondaries vehicles has benefited from deal volume growth ($bn)



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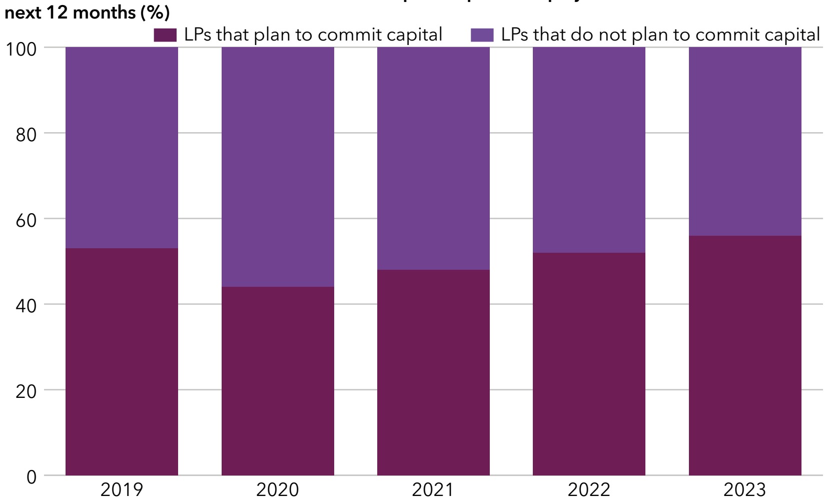
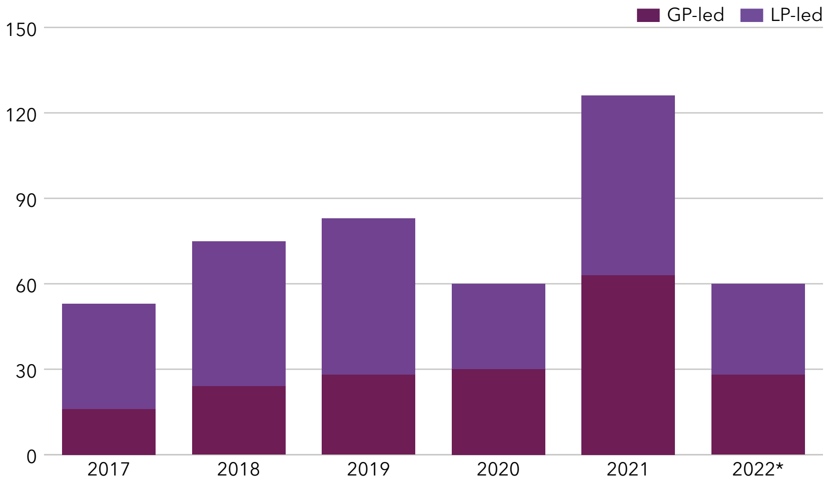
Source: Private Equity International

More than half of investors intend to commit capital to private equity secondaries funds over the next 12 months (%)



Source: Private Equity International's LP Perspectives 2023 Study

GP-leds have grown to account for roughly half of the secondaries market ($bn)



*H1 only
Source: Lazard

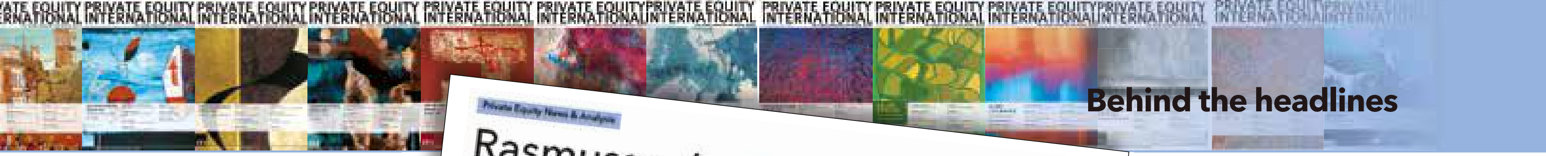
> *"I would argue we're still in the very early days of growth – not just in private equity but the secondary market"*
>
> **VERDUN PERRY**
> **Blackstone Strategic Partners**

the deal and the terms of the new fund set up to acquire the assets.

It's unclear when the first GP-led secondaries transaction was consummated. At VCFA, Carr is understood to have worked on at least one of these types of deals prior to the turn of the millennium. There were several landmark deals in the early 2010s, such as one run by Willis Stein & Company in 2012 and by Motion Equity Partners in 2014.

It wasn't until 2018, however, that PE sponsors truly began to cotton on to the idea that, by instigating and running these sales processes themselves, they could both provide liquidity offerings to their LPs, as well as use the processes to their own advantage. Blue-chip managers, spurred by Nordic Capital's landmark continuation vehicle process that year, realised that continuation funds were not just for troubled GPs or assets, and that if done right, could be a viable way to continue to manage assets.

The GP-led segment is now the fastest growing and most closely watched area of the secondaries market. Such deals were worth around $63 billion last year, per figures from Lazard. As GP-led secondaries processes continue to proliferate, ensuring these processes are run correctly – and are fair to both the original LPs and those who wish to 'roll over' their exposure – will be key to their survival. ■



Private Equity News & Analysis

Rasmussen's wrath: The full interview

Poul Nyrup Rasmussen, head of the Party of European Socialists, exclusively tells sister publication PEI why he still sees the asset class as a destructive force.

Toby Mitchenall

PE critic Rasmussen's regulatory push

The buyout model relies on 'extracting value for the benefit of a few', Denmark's former prime minister told PEI in 2010, as he pressed for a regulatory clampdown on private equity

The 21st-century history of private equity is peppered with episodes of political 'heat'. Even as it has become a larger, more institutionalised part of capital markets, political slings and arrows continue to fly in its direction.

My choice from the archives is an interview with Poul Nyrup Rasmussen, a former prime minister of Denmark and, at that point, president of the Party of European Socialists. Rasmussen saw the private equity industry as a bad economic actor and was a loud voice among the calls to regulate the sector. I was grateful to him for giving up his time to speak to a publication that clearly approached the sector from a different standpoint.

"A business model that relies on extracting value for the benefit of a few, as opposed to creating value for the benefit of many, cannot deliver efficiency at the macroeconomic level," he told me. "A company is not a 'bag of assets' that can be dismantled for the sake of short-term returns."

He expressed admiration for venture capital and was in favour of the idea of government support (both through regulation and funding) for VC investment: "Denmark has consistently had the highest level of venture capital investment in Europe for several years, and it is also one of the most competitive economies in the world, particularly in the high-tech sector. It's not by chance."

But leveraged buyouts were – to him – the source of "negative externalities not just for companies undergoing LBOs, but for society as a whole".

In his eyes, the behaviour of private equity firms had been a significant factor in bringing about the global financial crisis – a dubious opinion in my view: "The very reason why private equity firms are at the worst possible time today," he said, "is because we lacked appropriate regulation prior to the crisis."

I put it to him that in 2010 the market had moved on from debt-fuelled mega-buyouts; deals like the €13 billion take-private of Danish telephone operator TDC of 2006 were no longer on the table. Perhaps regulation was, at this point, unnecessary?

"With the economic recovery, markets will rebound, cash will flow again, leverage ratios will increase, new bubbles will inflate, until it all collapses again and we undergo another massive crisis… unless we do something now," he said. "It might be in two or in 10 years, but if we don't change the rules of the game today, we will face the same problems tomorrow. We cannot simply accept that."

The criticism levelled at the private equity industry continues to flare up with some regularity. Nine years later, Senator Elizabeth Warren would back a bill in the US designed to curb the activity of private equity firms, which she likened to "vampires".

More than a decade after this interview, however, the private equity industry has changed. LBOs like those we saw pre-GFC have not resurfaced, and growth capital forms a much larger part of the market. Private equity firms have also got used to life in a regulated industry, whether that is under the Alternative Investment Fund Managers Directive in Europe (Rasmussen's preoccupation at the time of our speaking) or by the Securities and Exchange Commission in the US. It has also got better at communicating its industrial success stories.

I often wonder whether Rasmussen views the industry in a different light today. ■

Toby Mitchenall is senior editor for ESG and sustainability at PEI Group and editor of affiliate title New Private Markets. He was editor of PEI until 2011 and senior editor, private equity between 2016 and 2020

EXPERT COMMENTARY

Once regarded as a 'cottage industry', secondaries has transformed into an intrinsic part of private markets, write Evercore's Nigel Dawn, Dale Addeo and Chase Johnson



The evolution of the secondaries market

Since the advent of private equity, limited partners have faced a dichotomy: investments in illiquid securities can create outsized return opportunities, though that same illiquidity can make it difficult to actively manage investment portfolios. Over nearly any return horizon over the past 20 years, private equity has consistently outperformed public equity, making it an attractive segment to allocate capital for institutional investors.

To access these returns, investors agree to commit capital into blind pools without redemption options for the entire fund's life. Closed-end private equity funds typically have a fund term of 10 years, though in practice are extended until all investments are liquidated, which can stretch a fund's life to 12 years or more.

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Given investors' desire to actively manage their portfolios, a secondary market developed for investors to sell fund interests prior to fund liquidation. The secondaries market, as it is now known, has grown from a relatively niche area within private markets to a dynamic tool for LPs and GPs to manage their portfolios.

Phase one: Pre-GFC… a niche industry

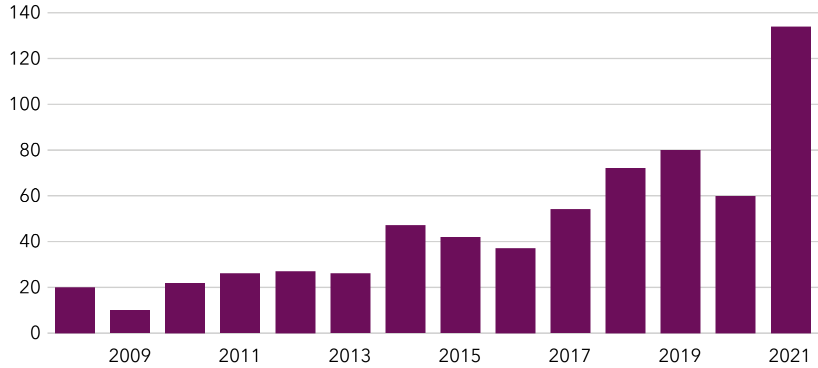
The secondaries market began humbly enough. Entrepreneurial investment firms saw the opportunity to acquire stakes in private equity funds from capital-constrained LPs, and began raising their own dedicated funds to capitalise acquisitions.

Many of the secondaries investors that are now stalwarts of the industry, including Coller Capital, HarbourVest Partners, Landmark Partners, Lexington Partners and Pomona Capital, raised their first secondaries funds in the 1990s. The earliest funds only had tens of millions of dollars of committed capital – a far cry from the multibillion-dollar funds raised in recent years.

These upstart firms predominantly acquired portfolios of LP interests in private equity funds – often non-intermediated at significant discounts to net asset value – and built diversified exposure to private equity with a shorter time horizon, given acquired funds were often already deployed. Returns for early secondaries funds could exceed 20 percent net IRRs, leading to greater investor interest in the nascent but growing asset class.

Still, supply was relatively limited and was usually driven by large portfolio sales from financial institutions. The early 2000s saw the completion of multiple billion-dollar transactions, including RBS's sale of the NatWest portfolio, UBS's sale to a joint venture with HarbourVest and the spin-out of DB Capital Partners to create MidOcean Partners. As transactions became larger, investors sought out advisers to run marketing processes to maximise value, and investment banks set up specialised secondaries advisory teams to originate and structure transactions. By 2008, secondaries transaction volume had increased to $20 billion.

Global secondaries transaction volume ($bn)



Source: Evercore

Phase two: GFC to 2014... recession creates opportunity

The impact of the global financial crisis reverberated throughout financial markets, and the secondaries market was not immune, with transaction volume halving to $10 billion in 2009. With uncertainty around asset prices, investors were sceptical about selling private equity funds while the world seemingly crumbled around them. As global economies began to rebound, governments instituted new regulation to provide additional safeguards around financial markets. Coupled with constrained balance sheets post-GFC, this regulation forced many financial institutions to exit their private equity exposure, both direct and indirect, in transactions welcomed by secondaries investors.

Financial institutions were not the only private equity investors impacted by the GFC. The denominator effect, where the value of an investor's broader portfolio decreases more than its private exposure, put pressure on other institutional investors to right-size their portfolios. Some LPs were no longer able to meet their unfunded capital commitments, given distress in other parts of their portfolios. In both situations, secondaries investors served as willing buyers of private equity exposure from LPs in the wake of the GFC.

While initially developed to provide solutions to LPs, the secondaries market also became a tool for private equity sponsors themselves. The first test case was to unlock value held in 'zombie funds' – funds that were in extension and managed by sponsors not able to raise successor funds. In this first wave of 'fund restructurings', secondaries investors capitalised a new special purpose vehicle, managed by the 'zombie' sponsor or a new sponsor, to acquire the remaining companies left in the fund. These could then be managed under extended duration, with refreshed alignment and access to follow-on capital.

These transactions, and the returns they generated, set the stage for the modern continuation fund movement as secondaries investors gained comfort in taking more concentrated exposure.

Phase three: 2015 to 2019... growing acceptance

For all the opportunity created by the secondaries market in the years following the GFC, secondaries remained a four-letter word for many GPs and LPs. However, that perception began to change as more investors reaped the benefits of the secondaries market.

For LPs, that meant being able to take a more active role in managing their private exposure. No longer just for forced sellers, the secondaries market was usable for LPs to focus their portfolios on core managers, strategies and vintages. In as little as a few months, LPs could generate as much liquidity as desired to redeploy into their highest conviction investment themes. These LP-led transactions continued to serve as the bread and butter of the secondaries market, always representing at least two-thirds of transaction volume.

Similarly, GPs found new ways to manage their portfolios through the secondaries market. While it had been previously reserved primarily for zombie funds or bank spinouts, a going concern sponsor could use the market to provide optional liquidity to their own LPs. 'GP-led' transactions took a variety of forms, including tender offerings, single- and multi-asset continuation funds and strip sales. Several well known sponsors completed GP-led transactions, helping to remove the stigma associated with the market.

Another theme during this period was the expansion of adjacent private markets strategies. While buyout private equity comprised the majority of secondaries transaction volume, deals were completed across growth equity, venture capital, private credit, private real estate and private infrastructure. Given the different return profiles of the underlying asset bases, dedicated pools of capital were raised by secondaries investors to target these opportunity sets. Preferred equity also became a tool for both LPs and GPs to accomplish their objectives, even if there was a significant bid-ask spread in a traditional sale.

Maybe more than most, the secondaries market was a beneficiary of stable global markets following the GFC, notching up a record year at the time in 2019, with $80 billion of transaction volume. Many questioned how the industry would hold up in another crisis.

Phase four: 2020 and beyond… no longer the 'cottage industry'

While 2020 started off looking like another record year for the secondaries market, the covid-19 pandemic brought deal activity to a grinding halt as investors grappled with how the effects of the pandemic would impact their portfolios. Given the sharp decline in the public markets, many market participants predicted that a rush of LPs would be forced to sell due to the denominator effect, similarly to after the GFC.

While a few LPs did sell in distressed situations, this expected wave of LP sales did not occur for two reasons. First, LPs were more flexible with their allocation targets, particularly given the quick rebound in the public markets. Second, LPs simply did not know how the pandemic impacted the value of their portfolios. Given the limited interest from LPs in pursuing full sales, preferred equity solutions came to the fore to help LPs meet their capital needs without taking a discount.

As the global economy shut down, GPs were forced to pause exit processes and push out exit timing until financial performance normalised. Continuation funds were an ideal alternative that could allow a sponsor to provide optional liquidity to LPs while extending duration and accessing follow-on capital.

"The secondaries market is resilient and sees the most innovation in challenging times"

While it was difficult to ascertain the fair value of an LP portfolio with hundreds of underlying companies, secondaries investors felt comfortable transacting on more concentrated exposure where they could thoroughly diligence the underlying assets. Software and healthcare were viewed as the most covid-resilient sectors and received the majority of interest from secondaries investors. GP-led transactions helped buoy the secondaries market in 2020, growing more than 20 percent year-on-year and surpassing LP-led transaction volume for the first time ever.

2021 was a strong rebound year for the secondaries market. Following strong success in 2020, GP-led transactions entered the mainstream as high-quality sponsors completed transactions focused on the top assets in the private markets. Single-asset continuation funds in particular surged in popularity as GPs sought to retain exposure to their 'crown jewel' companies.

No longer stigmatised for GPs, continuation funds became 'the fourth exit option', particularly for sponsors' best performing companies, meaning they could hold on to their winners while generating strong returns for LPs. LPs themselves initiated a record number of portfolio sales, driving total secondaries transaction volume to $134 billion in 2021.

Even though secondaries firms have raised record amounts of capital, the largest constraint on the growth of the secondaries market has been the amount of buyside capital available, particularly for GP-led transactions. With single-asset transactions of more than $1 billion becoming more prevalent, secondaries advisers have been forced to syndicate transactions beyond traditional secondaries buyers, stretching out processes by months.

Sponsors have seen the opportunity to apply their direct expertise to the secondaries market and a number have either bought or built their own secondaries businesses, and are raising capital to deploy into the space. Several secondaries firms are in the process of raising dedicated GP-led pockets of capital, and LPs that previously eschewed continuation funds are dedicating pools of capital for concentrated transactions. With several fund closes expected from secondaries firms over the next six months, the capital shortfall should tighten and allow the secondaries market to continue to grow.

In 2022, deal activity has slowed as secondaries buyers have become more cautious in light of economic concerns and a challenging fundraising environment. While transaction volume is likely to decline year-on-year, it is still expected to be more than $100 billion – 10 times the volume in 2009. As demonstrated in prior crises, the secondaries market is resilient and sees the most innovation in challenging times.

The industry has reached the scale of key importance to GPs and LPs, and we expect the trends we have seen over the past few years to continue. While a trillion-dollar market may be some way away, the secondaries industry has cemented itself as an intrinsic part of the private markets and is here to stay. ■

Nigel Dawn is a senior managing director and head of Evercore's private capital advisory group; Dale Addeo is a senior managing director; and Chase Johnson is a vice-president

A Decade of Evercore Private Capital Advisory's ("PCA") Growth and Expansion

2013

PCA begins with a team of **10 dedicated individuals** across the U.S. and Europe

2014

Transaction volume totaling **~$4.5bn** in the first full year of operation

2015

PCA **grows to 27** team members across the U.S. and Europe

2016

Receives PEI award for **"Secondaries Advisor of the Year in the Americas"** for the first time[1]

2017

Completes **41** transactions, eclipsing **$10bn** of transaction volume for the first time

PCA team grows to **35** people globally

2018

Completes **50** transactions, representing **$14bn** of transaction volume

PCA expands GP and LP coverage across the US with **opening of Chicago office**

2019

Completes **55** transactions, representing **$21bn** of transaction volume

Receives "**GP-led Deal of the Year in the Americas and Europe**" and **"LP Sale of the Year in Europe"**[2]

2020

PCA **expands to** the **APAC region** by opening an office in Singapore and has **50** team members globally

Receives PEI award for **"Secondaries Advisor in Europe"** for the first time[3]

2021

Completes **91** transactions, representing **$57bn** of transaction volume

Receives PEI award for **"Secondaries Advisor of the Year"** in all geographic categories - the Americas, Europe and Asia

2022

PCA launches a **Structured Capital Soltuions** platform focused on executing **Collateralized Fund Obligation ("CFOs")** for GPs and LPs

370+ Transactions[4]

270+ Clients[4]

$160bn+ Volume[4,5]

84 Team Size

1. PCA has won "Secondaries Advisor of the Year in the Americas" every year since 2016
2. PCA also won "Deal of the Year in the Americas" in 2020 and 2021
3. PCA has won "Secondaries Advisor of the Year in Europe" every year since 2020
4. Excludes deals in process
5. Only includes purchase price and new capital raised for GP deals

The rise of ESG

Private equity's adoption and integration of ESG has been rapid, but there is still some way to go before everyone is on the same page, writes Vicky Meek

When *Private Equity International* first began reporting on the asset class, private equity was quite a different animal, and not just because it was a much smaller industry. Those around in the mid-2000s will remember well the comments by a certain German politician likening US and UK firms investing in the country to locusts, claiming they stripped assets bare and destroyed jobs. While these accusations were almost certainly overblown, it's true that, outside of those companies backed by development finance institutions, few businesses of yesteryear explicitly took environmental or social considerations into account when investing.

Fast forward to today and you would be hard-pressed to find a firm that doesn't claim to at least consider ESG factors in its investment decisions. In fact, the rise of ESG has been one of the biggest changes in the industry over the past 21 years.

The seeds for this were sown in 2005, when institutional investors, asset managers and other parts of the investment ecosystem gathered to discuss the role of ESG in creating long-term value at a conference called Who Cares Wins (accompanied by a report of the same name). The following year also saw the launch of the Principles for Responsible Investment under the auspices of the UN. Yet, it wasn't until the years immediately following the financial crisis that private equity started coalescing around these principles.

"The conversation around ESG in private equity really started with the creation of the UN's PRI, as signatory status became a litmus test for managers," says Adam Heltzer, a managing director and global head of ESG at Ares Management. "Today the bar is much higher, with greater expectations for the substance of an ESG programme, including clear objectives tied to both risk mitigation and operational value creation."

This has had a significant impact on private equity operations and resources in the intervening years. "In the early stages, there were very few in-house ESG professionals," says Shami Nissan, partner in the sustainability team at Actis. "Today, pretty much every GP has a dedicated team and a narrative on sustainability – it used to be a differentiator; it's now standard."

> *"ESG has become much better understood as a means of both protecting and creating value"*
>
> **BHAVIKA VYAS**
> **StepStone Group**

Furthermore, it's fair to say that within many firms all roles have changed to incorporate ESG factors. "The cultural embeddedness of these activities has moved in line with the mainstreaming of ESG," says Heltzer. "In an earlier era, ESG integration was the responsibility of a lone dedicated specialist, yet today there's an expectation that rank-and-file investment professionals can speak to the programme and how it affects their investments."

Growing sophistication

ESG is much more sophisticated than it used to be, adds Heltzer: "At one stage, managers were considered advanced if they reported a few qualitative ESG bullet points per portfolio company to LPs. Now, you need to be much more programmatic, systematic and quantitative, clearly demonstrating how you implement ESG processes.

"This has undoubtedly changed the way alternative investment firms operate. It used to be more opportunistic, but firms now seek to embed it in value-creation plans and engage with management teams on generating meaningful operational change at the portfolio level."

5,245

Number of signatories to the UN Principles for Responsible Investment as of 7 November 2022, up from 63 in 2006

Source: UN PRI

69%

LPs that believe adopting a strong ESG policy will lead to better long-term returns in their private markets portfolio

Source: Private Equity International's LP Perspectives 2023 Study

88%

LPs that take evidence and consideration of ESG into account during manager due diligence

Source: Private Equity International's LP Perspectives 2023 Study

80%

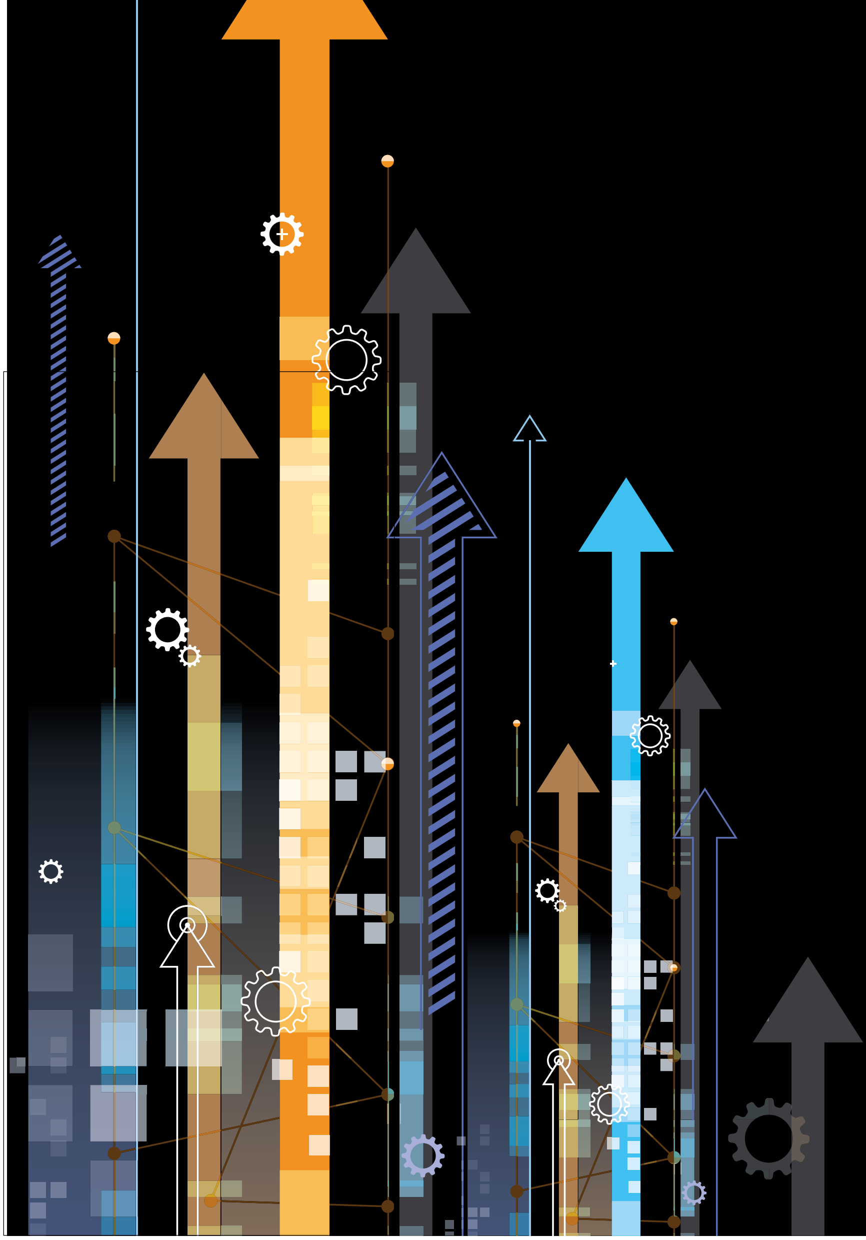
LPs that expect to increase requests to GPs for ESG reporting over the next three years

Source: ILPA-Bain ESG Survey 2022

62%

GPs for which ESG has been a significant contributing factor in their decision not to invest in a company

Source: Investec's GP Trends Report 2022



As with many aspects of private equity, these developments have – until recently – largely come about because LPs have asked for them. The long-term investment horizons of many fund investors, the rising demand for an ESG focus among their stakeholders and the pressing nature of issues such as climate change and social inequality (which was particularly highlighted during the covid lockdowns) have all led many LPs to focus their efforts around net zero and decarbonisation, as well as social inclusion and equity.

Investors are increasingly directing their capital towards managers that can help them achieve these aims. More than two-thirds of LP respondents to a 2022 Bain & Company and Institutional Limited Partners Association survey say ESG considerations play a role in their organisations' investment policies. Of those LPs, 85 percent have an ESG policy that is fully (52 percent) or partially (33 percent) implemented in their private equity portfolios. The survey also found that 70 percent of LPs headquartered in Europe agree that ESG commitments influence valuation premiums, although that figure falls to 38 percent among US LPs.

ESG's link to value

"ESG has become much better understood as a means of both protecting and creating value," says Bhavika Vyas, a managing director at StepStone Group. "LPs have overall increased their expectations of what baseline ESG practice looks like and they are driving GPs along the journey."

There is also mounting evidence emerging that backs up the idea that a focus on ESG can drive returns. For example, a recent review by NYU Stern Center for Sustainable Business of more than 1,000 studies published between 2015 and 2020 on ESG and financial performance found that "improved financial performance due to ESG becomes more marked over longer time horizons" and that "ESG investing appears to provide downside protection, especially during a social or economic crisis".

However, that doesn't mean there is universal support for investing according to ESG principles. This year has seen a pushback in some quarters – notably in the US, where several states are considering laws that would prevent pension funds from investing with managers that screen out investments based on environmental impact, and where the Department of Labor ruled in 2020 that pension plan fiduciary duties lay in focusing on financial as opposed to "non-pecuniary" goals.

This misses the point, says Natasha Buckley, vice-president and head of ESG at HarbourVest Partners. "You can't put ESG back in the box," she says. "The pushback we've seen in some quarters is perhaps a reaction to ESG becoming so prevalent – and, with it, confusing at times. But we have to be clear that ESG is about risk mitigation, value protection and value creation at exit. It is about acting as a fiduciary."

The other big issue that has come to the fore over recent years is a fear of greenwashing by fund managers. These fears have also not been totally quelled by the well-intentioned – but ultimately highly confusing – proliferation of frameworks, guidelines and standards issued by a variety of organisations.

Yet regulators are taking note. The creation of the EU taxonomy around sustainability and the implementation of the Sustainable Finance Disclosure Regulation, along with proposals from the US Securities and Exchange Commission, are squarely aimed at improving disclosures.

> *"You can't put ESG back in the box"*
>
> **NATASHA BUCKLEY**
> **HarbourVest Partners**

"Until recently, ESG had been allowed to flourish with a wide range of approaches emerging among GPs," says Buckley. "The onus has been on LPs to test whether GPs align with their own expectations. However, the proliferation of regulation is something of a milestone. This helps create checks and balances to prevent greenwashing."

Buckley does, however, stress the need to "guard against creating a compliance culture that punishes those that are trying and disincentivises commitment".

There are efforts around harmonisation of reporting, with many in the industry citing the ESG Data Convergence Initiative as particularly helpful, offering the potential for greater clarity. Overall, the collection of data, together with increased sustainability regulation across the whole economy, will push ESG practice and reporting further along the development curve in the years to come.

"We are getting to a point where everyone agrees what has to be reported on – that's the core of the 'onion' – and regulation will help with this," says André Frei, chairman of sustainability at Partners Group. "Once that has been agreed, then you can add 'layers' to the onion."

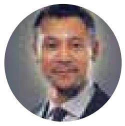
Carmela Mondino, head of ESG and sustainability at Partners Group, adds: "The industry is being pushed to gather and report on more areas, as well as collect more data. Yet it's not clear that this is coming with any obligation to improve. This will come, in particular as data is aggregated and assessed to create benchmarks, for example.

"The next stage of development will be around how data can be used to demonstrate what GPs are doing and how they can improve." ■


Abraaj cancels annual Dubai investor forum – exclusive

The firm, which is undergoing a strategic review, plans to hold the annual meetings of its funds on a regional basis, Private Equity International has learned.

Abraaj falls from grace



Adam Le

The darling of so-called 'growth markets' investing took just half a year to unravel in a saga that has yet to conclude

The anonymous tip came out of the blue. "There is a cover-up inside the finance team," the email read. "Investors are asking for bank statements and money movement which Abraaj is not providing."

It was early 2018 and the editorial team at *Private Equity International* received a steady drip of emails from someone claiming to have knowledge of senior resignations at Abraaj – at that time the private equity industry's best-known emerging markets investment firm.

What followed was a saga, news of which was first broken by *The Wall Street Journal* in February of that year, that led to the ultimate downfall of a firm that once managed almost $14 billion in assets on behalf of major global investors including the International Finance Corporation, the Bill and Melinda Gates Foundation and French government organisation Proparco.

At the heart of the matter were claims that Abraaj, which was founded by Pakistani businessman Arif Naqvi and was headquartered in Dubai, had misappropriated over $230 million related to its $1 billion 2015-vintage Growth Markets Health Fund. LPs were reported to have hired an accounting firm to help trace capital that was to be invested in medical projects in India, Pakistan, Kenya and Nigeria.

Called to a halt

By late February, Naqvi had stepped aside, and the firm had paused all fundraising and new deployment activities. By early March, the firm had released investors from its Abraaj Private Equity Fund VI global flagship vehicle, which was seeking $6 billion. On 8 March, *PEI* reported that Abraaj had cancelled its annual investor week in Dubai – an event known for its lavishness and opulence, despite the firm's focus on helping build businesses in some of the world's poorest countries.

Departures came next, including that of chief financial officer Ashish Dave and managing partner Sev Vettivetpillai. Dave, Vettivetpillai and Naqvi himself, as well as three other senior executives, would later be charged on counts including wire fraud and conspiracy.

By June, the firm had filed for a court-supervised restructuring in the Cayman Islands, and was seeking to appoint PwC as provisional liquidator.

One of the more memorable documents we came across while reporting on these events was a creditor document detailing the sale of 367 pieces of art, held in Abraaj's name and insured to the value of $22 million, which were to be auctioned as part of the firm's liquidation in October 2018. It was hard to believe that a firm once regarded as the darling of so-called growth markets investing, and one that appeared to have cracked the code for combining impact investing with making PE-level returns, was going through a fire sale.

Taking stock

What are the lessons from Abraaj's downfall? Speaking in July 2021 to Toby Mitchenall, editor of affiliate title *New Private Markets*, Simon Clark, co-author of *The Key Man*, which chronicles the rise and fall of the firm, said that a broader conversation around poverty and impact investing was long overdue.

"To have conversations about the global economy and poverty with only relatively wealthy or rich people in the room should become as unacceptable as a room full of men talking about gender equality," Clark said.

"It's not about demonising anyone, or any company, or any industry, or any geography. There is a need for a genuinely inclusive conversation where people who haven't necessarily listened to each other before do start to listen to each other." ■

Adam Le is senior editor, private equity, EMEA at PEI Group

KEYNOTE INTERVIEW

Consistency is a long game

Focusing on growth and operational improvement is the foundation for generating sustainable and consistent long-term returns, say Terry Miu Neeland, Alex Ovchar, Rosie Johnson and Tim Sims at Pacific Equity Partners

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Q Pacific Equity Partners has been one of the leading PE firms in Australasia for 25 years now. Where did it all begin and how has the firm evolved since then?

Tim Sims: The journey began in the early 1980s. The core of the founding partner group started out as strategy consultants with a distinctive and daring mission, which was to improve share price and market value for our clients. We worked in Europe, the US, Asia, Australasia and Africa with management teams across the full range of different industries, excluding commodity sectors, where share price is often dominated by other considerations.

As part of the mission, we engaged a global accounting firm to monitor and record the rate of change in value for our clients, and we saw total shareholder returns across this wide range of industries compounding at an average rate of 42 percent per annum over the next two decades. That was exciting and interesting work, and so together with Rickard Gardell, Simon Pillar and Paul McCullagh, who we had met in the investment banking arena, we sought to take this experience and apply it in a different setting. This led to the establishment of Pacific Equity Partners in 1998.

At that time, private equity in a formal sense did not exist in Australia. There was limited financial and legal technology for private equity and no good understanding for international investors as to how the tax regime might operate for these types of funds. Even though we had a well-regulated, thriving economy with a well-developed investment industry on the ground, there was no private equity tradition.

We were able to bring seasoned investors into this new jurisdiction. The engagement of some of the largest and most sophisticated endowments was crucial. We received support from the likes of the late David Swensen at the Yale University Endowment. Mitt Romney, who we had met through our work with Bain & Co, was crucial to providing introductions, encouragement and endorsement for our work.

After 25 years of hard work and experience, we have a team of 70 professionals and currently A$9 billion of assets under management on a platform with five investment strategies. PEP is the largest and by a significant margin the most active local player in the market. There is a reassuring symmetry in the fact that over the last 25 years PEP investments have delivered average gross compound growth of 41 percent – in line with the growth that our foundation team was delivering alongside management teams in the 1980s and 1990s. That is more than 40 years at more than 40 percent returns.

Q Is there a 'secret sauce' for creating value in portfolio companies?

Terry Miu Neeland: We are very careful in our asset selection to ensure that we can identify clear potential for delivering meaningful earnings growth. A good example of how we work is an investment in the milling and bakery space, where we acquired the Australian bakery business of a large multinational group.

The business was well run and delivering stable but low growth rates prior to our ownership. We were able to put in place a high-performing management team, who had a history of success and a focus on new products. That was the main driver in invigorating this category across the key channels to market and generating growth beyond the usual population- and inflation-linked trajectory.

An important part of our investment strategy involves pursuing growth through acquisitions and buy-and-build activity, and with the management team we brought two complementary businesses together to unlock material operating efficiencies and cross-selling synergies. The combination of these measures has seen the business double earnings during our hold period.

The common theme across all our investments is an obsession around creating operational excellence in our companies, and it is down to the management team to deliver on that. We trust the management team to grow a business, and that to us is the secret sauce in generating value.

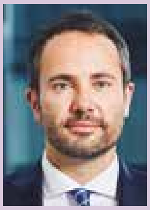
Ultimately, we have a view of the full potential for a business and we will have an outline strategy, but it is the high-performing management teams that we work with who put that vision into reality. This reflects the long-term history and DNA of the firm.

Q What are the key ingredients for delivering consistent long-term performance?

Alex Ovchar: From an investment portfolio strategy perspective, the 41 percent gross average return that PEP has generated since its inception is underpinned by a specific focus on consistency of outcomes.

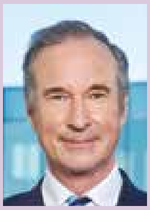
There are multiple ways to get to these averages. For example, in early-stage investing, such as venture capital and growth equity, managers will generally rely on a few investments that deliver truly outsized returns in the 25 to 50 times money outcomes. By necessity, that means money is often lost on other investments.

Terry Miu Neeland
Director



Alex Ovchar
Director

Rosie Johnson
ESG director



Tim Sims AM
Co-founder and managing director

> *"Even though [Australia] had a well-regulated, thriving economy with a well-developed investment industry on the ground, there was no private equity tradition"*
>
> **TIM SIMS**

Our approach to getting to that 41 percent average is the polar opposite. It is grounded in a particular focus on delivering consistency of outcomes. The way we do that is to have a plan to double profits in each business that we buy. These are often mature, stable businesses that are growing profits at a rate of around 3-4 percent prior to our acquisition. We then seek to accelerate sustainable earnings through the value-creation approach that Terry has outlined.

Q What developments are you seeing around ESG, and what do those trends mean for value creation in private equity?

Rosie Johnson: There is increasing demand from investors to demonstrate how managers are implementing ESG into the fabric of their operations. Since joining the firm, I have sought to build on existing practices and one of our focuses has been on holding regular education sessions to keep the organisation up to speed in this rapidly evolving area.

One of the most noticeable things for me has been the interest across the whole team in how value can be created by delivering results through an ESG lens. In our sessions everyone around the table is eager to understand what the ESG value drivers are, how to assess those drivers during initial deal discussions, and how to enhance value from an ESG perspective.

Something that we will be looking into more at PEP is both the transformative and the incremental value created as a result of positive ESG influences. We have seen a lot of ESG premiums being paid for businesses and there is evidence to suggest that there is both transformative and incremental value creation linked to ESG measures.

One element we are working to understand is how much of the premium is down to ESG measures and how much would have filtered through anyway.

Q What role does culture play in generating value and focusing on consistency of outcomes?

TS: Integrity, long-term relationships and business understanding are at the heart of delivering deals and serving portfolio company management teams, and those values sit at the core of what we have tried to establish at PEP.

As our firm has expanded and we have grown the team and secured more funds, a transparent culture of mutual learning has ensured that we stay true to our founding values. There is an intense focus on transparency, openness of discussion around our respective skills and how we each improve on these.

Take our investment committee structure, for example. The investment committee for each deal is open to the whole firm, and we won't proceed with an investment until the vote is unanimous. This ensures that we are all jointly and severally committed to a deal.

An open investment committee gives the space to keep questioning until we are all satisfied, and it is also an education forum for all members of the firm to see the analysis that we are bringing to bear on a topic. Everyone in the organisation can see how we relate to each other constructively in the robust debate that an investment committee necessitates and learn how we work through analysis and build consensus.

It is about combining technical skill with commercial and interpersonal skills. This approach has served us well in delivering the kind of consistent outcomes that we have been fortunate to enjoy.

RJ: I joined the firm just over a year ago as ESG director and I have learned as much from the senior members of the deal teams as I have from our junior team members. Right across the organisation there is a genuine curiosity about ESG and its value-creation potential.

> *"There is increasing demand from investors to demonstrate how managers are implementing ESG into the fabric of their operations"*
>
> **ROSIE JOHNSON**

TS: ESG is an increasingly important theme, but a sense of community commitment has always been intrinsic to our culture. Twenty-five years ago, members of the firm led the movement to establish 'payroll giving' for the first time in Australia. This has since raised A$1 billion of annuity income for charity. We have also been involved in establishing a wide range of other ventures to improve community outcomes in causes such as education for the disadvantaged, domestic violence protection, slavery rescue and remediation, affordable housing and new initiatives for charitable fundraising. Within the core business we were the first Australian private equity firm to raise a green bond, for example.

Rosie has come in as ESG director to take us on the next step in that journey. If there is something important to be done, to be explored and to be demonstrated in the ESG space, private equity as an asset class has the opportunity to provide a lead in the area and show how to combine profit and community outcomes in the same mission. We are delighted to be working together with our peers in the market to achieve this. ■

Changemakers

We cast a spotlight on the leaders who have helped shape private equity into the industry it is today

Putting their stamp on the asset class

PEI's list of 21 Changemakers highlights the pioneers, partners and personalities who have had an outsized impact on the industry, and those whose actions continue to shape its future

In 2011, to mark the 10th anniversary of its founding, *Private Equity International* compiled a ranking of the '100 most influential' people of the decade. At the time, we noted that while private equity was not then a "mainstream part of investment management", it was on the verge of becoming one. Gone were the days of it being considered a cottage industry, and it was the professionals included in the ranking, we argued, that were responsible for the transformation of the asset class.

Today, private equity has become a typical part of many institutional investors' portfolios, and the asset class is also beginning to open up to less traditional investor profiles, such as defined contribution pension schemes and retail investors. The market has evolved significantly over the last 10 years, but what about the people behind it?

With *PEI* celebrating its 21st anniversary this year, we decided to spotlight 21 changemakers who have made a splash in the industry since we began covering it.

As in 2011, it was an almost impossible task to whittle the movers and shakers in private equity down to a finite list, with the added difficulty this time around of filling just 21 spots rather than the more generous 100. But try we did, and after much debate among *PEI*'s editorial team – past and present – we narrowed our selection down to those we believe have helped shape private equity into the industry it is today.

Not only is our 21st anniversary list of influencers more compact than our 10th anniversary edition, it also eschews the idea of ranking them. Today's list includes not just individuals, but groups of co-founders or co-leaders. Some have been active in the industry for decades and their stature in private equity is undeniable. Others have started making waves more recently, but their work looks set to help direct the future course of the asset class.

Among them you will find founders of some of the biggest names in private markets, pioneers who have moved the needle in areas such as ESG and impact investing, and visionaries who have developed innovative practices and put new or once-niche market segments on the map. The selection also features individuals who have championed DE&I, and as efforts such as theirs begin to prompt more meaningful change across the industry, we hope that there will be greater diversity among founders and senior leaders over the years ahead.

There are, of course, many people worthy of inclusion in the list who have been omitted. Each reader likely has their own idea of who should have been featured, and no doubt these vary widely. In 2011 we wrote that our list of '100 most influential' individuals was unlikely to be our last "because to us this is a business in which people have always mattered greatly". This still holds true today. Any industry as relationship-driven as private equity would be nothing without the people behind it.

If *PEI* repeats this exercise when it reaches its next major milestone, we shall see whether our choices for the 21 Changemakers list has stood the test of time. Until then, we will continue to cover the ongoing transformation of the asset class and the individuals driving it forward. ■

21 Changemakers coverage written by Helen de Beer, Madeleine Farman, Louise Fordham, Adam Le, Alex Lynn, Carmela Mendoza, Toby Mitchenall, Hannah Roberts and Tobias Waters

Roll call

Marc Rowan, co-founder and CEO of Apollo Global Management

Stephen Schwarzman, co-founder, chairman and CEO of Blackstone

Réal Desrochers, former managing investment director, private equity, at CalPERS and former director of alternative investments at CalSTRS

David Rubenstein, co-founder and co-chairman of the board at Carlyle

Megan Starr, global head of impact at Carlyle

Joseph Rice, co-founder of Clayton, Dubilier & Rice

Jeremy Coller, chief investment officer, managing partner and founder of Coller Capital

Nigel Dawn, senior managing director and head of the private capital advisory group at Evercore

David Blood, founding partner and senior partner of Generation Investment Management

Sir Ronald Cohen, chairman of the Global Steering Group for Impact Investment

Lawrence Calcano, chairman and CEO; **Dan Vene**, co-founder, managing partner and head of iCapital Marketplace; **Nick Veronis**, co-founder, managing partner and head of portfolio management at iCapital

Kathy Jeramaz-Larson, former executive director at the Institutional Limited Partners Association

Pete Stavros, partner and co-head of Americas private equity at KKR

Henry Kravis and George Roberts, co-founders and co-executive chairmen at KKR

Kathleen Bacon, Cécile Belaman, Jennifer Dunstan, Dana Haimoff, Lori Hall-Kimm, Alexandra Hess, Kathryn Mayne, Emma Osborne, Christina Pamberg, Hanneke Smits, Helen Steers and Sasha van de Water, co-founders of Level 20

Wol Kolade, managing partner at Livingbridge

Weijian Shan, co-founder, executive director and executive chairman of PAG

Robert Hamilton Kelly, Ali Raissi and Christian von Schimmelmann, managing directors and global co-heads at Petershill Partners

Jan Ståhlberg, founder and managing partner at Trill Impact

Paul Volcker, former chairman of the US Federal Reserve

David Swensen, former chief investment officer at Yale University

Marc Rowan

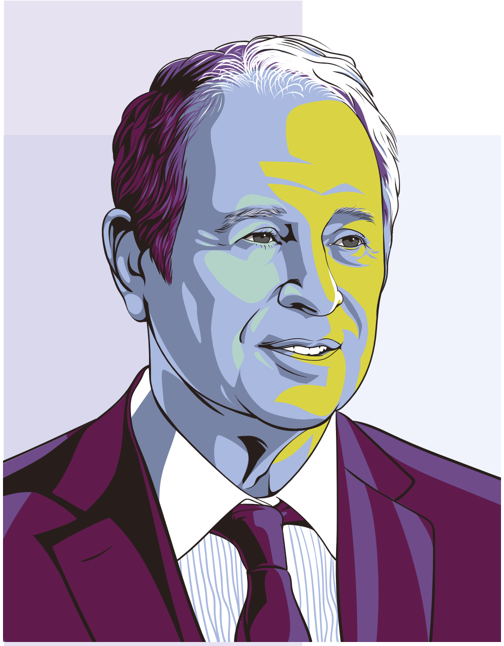
Apollo Global Management

Touted as a master of financial engineering, Apollo co-founder Marc Rowan is credited for being the brains behind the listed alternatives giant's much-envied deal with insurer Athene at the start of 2022. The insurer provided Apollo with roughly two-fifths of its assets under management via permanent capital, Rowan told analysts when the merger was announced in March 2021. Upon completion, the merger created the firm's retirement services business.

Rowan is understood to have played a leading role in developing the firm's insurance strategy. While the Athene deal was the latest in a string of tie-ups between big insurance companies and asset managers, like that of KKR and Global Atlantic, as *Private Equity International* reported in 2021, Apollo set the pace in 2009 by recognising that managing portfolios of insurance assets like Athene's annuities could be a steady source of permanent capital to invest.

Rowan took on the mantle of chief executive in March 2021 during a tumultuous time for the firm. He succeeded fellow co-founder Leon Black, whose departure followed an investigation into and media scrutiny of his relationship with Jeffrey Epstein – the investigation, conducted by law firm Dechert, found no evidence that Black or any Apollo employee was involved with Epstein's criminal activities.

With Rowan at its helm, Apollo has continued to roll out ambitious plans. At the end of the second quarter it launched global wealth platform Apollo Aligned Alternatives with $15 billion of invested or committed capital. This included $10 billion of capital off the balance sheet of Athene and $5 billion from institutional investors. Based on early conversations with investors, Rowan said on the firm's second quarter earnings call that AAA has the potential to be "the largest fund across the Apollo platform by this time next year".



Stephen Schwarzman

Blackstone

As co-founder, chairman and CEO of one of the largest investment firms in the world, Stephen Schwarzman was always going to be a strong contender for our Changemakers list. Schwarzman has been involved in all aspects of Blackstone's development since the firm was founded in 1985, including expanding its private equity offering. As a result, Blackstone has sat in the top spot of the PEI 300, a ranking of the industry's biggest fundraisers, for five of the past 10 years.

Schwarzman has graced the pages of *PEI* many times over the last 21 years, ranging from the 2005 announcement that he would be succeeded as president of the firm by Hamilton James to his recent thoughts on the Biden administration's impact on US-China relations. He also featured in our 10th anniversary '100 most influential of the decade' list, with his contribution to the $21.7 billion closing of Capital Partners V in 2007 – at the time, the industry's largest private equity fund – landing him squarely at number three in the ranking. With Blackstone reportedly targeting $30 billion for its next flagship – which would, again, be the largest PE fund ever raised – it's clear Schwarzman's drive hasn't dissipated over the last decade.

Réal Desrochers

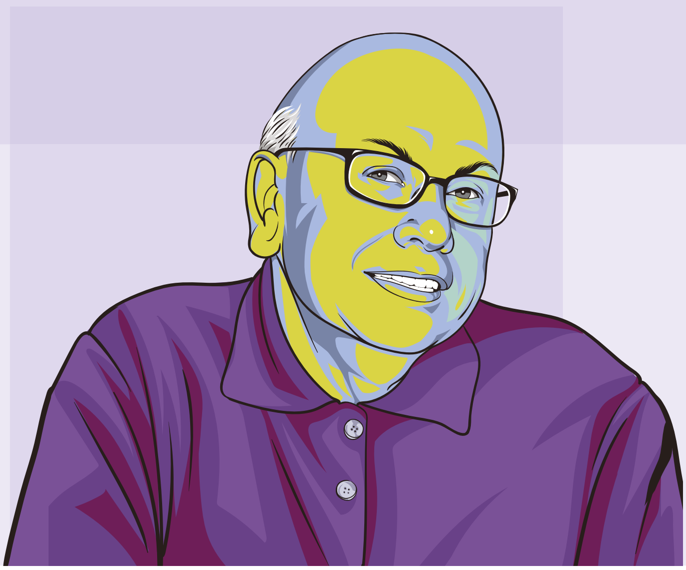
Formerly at CalPERS and CalSTRS

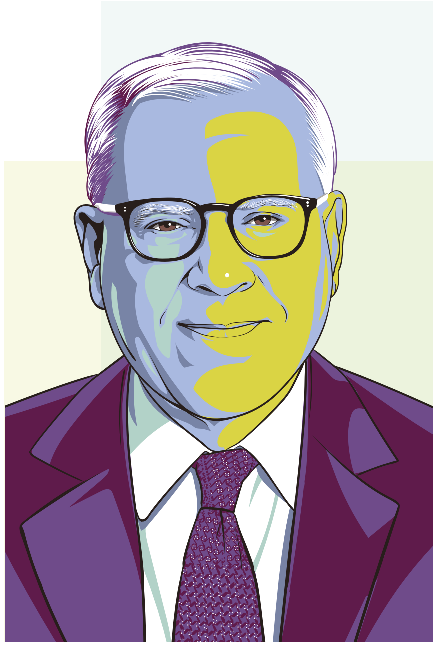
When Réal Desrochers left the position of managing investment director of the private equity programme at the California Public Employees' Retirement System in 2017, the role was left without a permanent occupant for two years. There's something to be said here about having big shoes to fill. In *PEI*'s 10th anniversary list of PE influencers, we noted that Desrochers was so "plugged in" to the industry that GPs had him on speed dial.

Looking at his CV, it's clear from where he gained this market insight. Canadian-born and previously serving as vice-president of international corporate investments at Caisse de dépôt et placement du Québec, Desrochers emigrated to the US to join the California State Teachers' Retirement System in 1998, where he held the role of director of alternative investments. When it was announced that Desrochers had resigned from CalSTRS in 2009, Christopher Ailman, CalSTRS' chief investment officer, wrote in an internal email: "I'm not sure Réal will ever truly retire. He has investments in his blood."

Ailman added: "He is truly a global industry leader in private equity… During his tenure, our private equity portfolio has produced the second-highest performance in the entire US."

Desrochers subsequently served as CIO for the Saudi Arabian Investment Company (Sanabil) before beginning on a near six-year stint at CalPERS. The industry veteran also dipped a toe in the world of Asia-Pacific private equity, serving as managing director of Beijing-headquartered investment firm CITICPE (now CPE) until 2021, where he was understood to have been responsible for strategy development and establishing a US outpost for the firm.





David Rubenstein

Carlyle

In June, *PEI* published an article outlining David Rubenstein's 10 steps to due diligencing funds – tips that he recounted in less than two minutes at a recent industry event. As of November, this was the most-read article *PEI* published this year by some distance.

This comes as little surprise; the Carlyle Group co-founder and co-chairman of the board – referred to in our 10th anniversary list of influential PE figures as "the greatest fundraiser the industry has ever seen" – is a fount of wisdom. When he talks, people listen.

Rubenstein set up Carlyle in 1987, and in 2001, when he sat down with *PEI* for its very first issue, he shared his ambition to build the firm into a household name in international private equity.

No one could claim he failed: this year, Carlyle placed sixth on *PEI*'s list of the 300 biggest fundraisers in private equity, having raised $48 billion over the preceding five-year period, while its 13th flagship fund is currently in the market having raised $14 billion of its $22 billion target, per *PEI* data.

KEYNOTE INTERVIEW

Broadening access to private equity

The asset class should welcome more private individual investors, but products must be carefully tailored to their needs, say Neuberger Berman's Peter von Lehe, Maura Reilly Kennedy and José Luis González Pastor

SPONSOR
NEUBERGER BERMAN

Q Where does Neuberger Berman sit in the private markets ecosystem and how does that inform your perspective on meeting the needs of individual investors?

Peter von Lehe: Neuberger Berman has been in the investment business for around 80 years, and we currently manage around $408 billion of assets, including $134 billion of alternatives, $105 billion of which is in private markets. We are 100 percent employee-owned, with more than 600 of our 2,500 employees holding a share of the business. That is a key feature of our firm, because we think it allows us to take a long-term view, rather than managing to quarterly reporting cycles.

We have been in the private markets business for more than 35 years, partnering with top-tier managers around the world. We invest in those managers on a primary basis; we invest directly into their portfolio companies through our co-investment business; we buy interests in their older or continuation funds through our secondaries business; and we lend money to their portfolio companies through our credit business.

Importantly, Neuberger Berman as a firm, since inception in 1939, has been managing money for private individuals. In private markets, we have been designing and managing solutions for individual investors for more than 15 years.

Q The benefits of the democratisation of PE have long been discussed, but what are the impediments to individuals accessing the asset class?

Maura Reilly Kennedy: Private equity investors have been able to benefit from the return premiums and diversification of the asset class for the last 20-plus years. These beneficiaries, however, have tended to be large institutional investors, including public and private pension funds, endowments, sovereign wealth funds and family offices. The traditional high-net-worth investor has not had meaningful exposure to private equity, with allocations typically being no more than a low single-digit percentage of their portfolios, if anything.

That is partly because there are real barriers to entry, including high eligibility requirements and high investment minimums. Even if a traditional private equity offering has a minimum commitment of $500,000, which may be considered low, sometimes an individual investor may meet the eligibility requirements but still consider that level of commitment to a single fund to be too high for them to maintain a diversified portfolio.

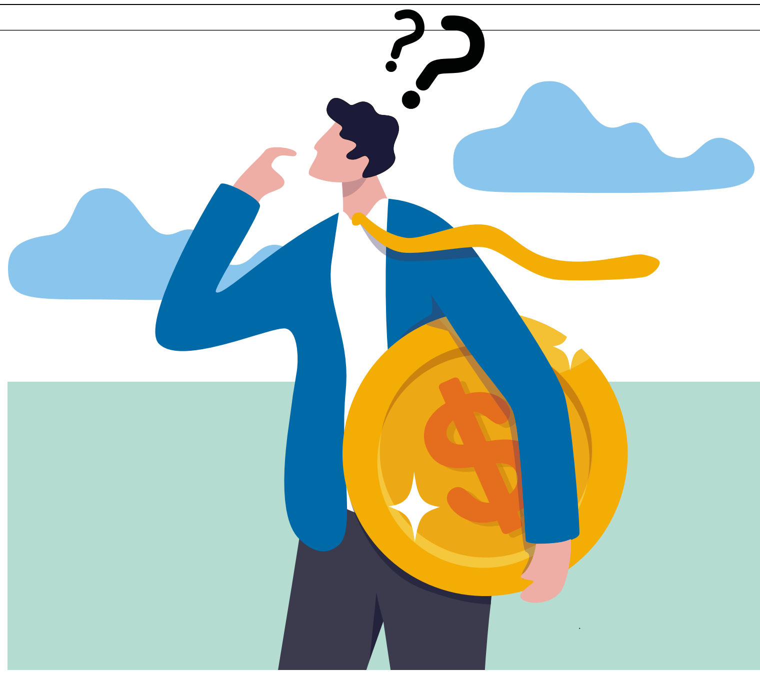
Equally, the typical capital call, self-liquidating, 10-year duration private equity structure raises questions for many individual investors about the timing of inflows and outflows, and often presents complicated tax issues for private individuals.

We are focused on the democratisation of private equity as an asset class, but we are sensitive to doing that in a way that can offer institutional quality to individual investors.

Q What are some of the newer solutions available to individual investors seeking access today?

PvL: Building high quality private equity portfolios means delivering them in a way that is suitable both for each client's particular needs and for the fundamental characteristics of the asset class. That often means releasing clients from the tyranny of the traditional LP structure; for some investors that LP structure is fine, but it is not the only way to do it.

We are seeking to deliver our capabilities in the asset class in a format



Q What should be the key considerations for individual investors when evaluating private equity opportunities?

PvL: First, the focus needs to be on the quality of the manager and whether that manager is good at investing in private equity.

The second question we would suggest investors ask is whether the fund they are being given the opportunity to invest in is of the same quality as what is being offered to institutional investors.

Third, does the manager have all the other capabilities necessary to successfully manage and support these vehicles? They should consider whether the manger has the right risk management in place, and if it has the operational infrastructure and the ability to provide the education necessary to support individual investors.

MRK: Central to this is that the democratisation of the asset class needs to be focused on developing structures that are appropriate for individual investors and delivering portfolios that give clients a good long-term investor experience. This absolutely should not be about how quickly managers can grow assets under management in private equity by tapping a new investor base.

PvL: We are long-term believers in the democratisation of the asset class and think the benefits of investing in private equity should be open to more investors, beyond just institutions and ultra-high-net-worth individuals. Over the long term, private equity shows strong performance and it can give investors access and exposure that they cannot get elsewhere.

There is a real growth opportunity here for the industry, but we are focused on that occurring because a broader range of people are experiencing those positive benefits and having that build over time in a properly risk-managed way, as opposed to it just being the 'hot' new thing. This is a long-term asset class and a long-term exposure, not a trade, so investors need to approach it accordingly.

that meets the actual needs of investors, rather than just echoing the way things have always been done. In practice, that means we do use traditional structures but sometimes those may have shorter or longer investment periods. We also use open-end vehicles, with a strong focus on risk management, which is important when you include illiquid assets in that type of vehicle. We use exchange-listed, closed-end funds as well.

As Maura mentioned, high eligibility requirements are one of the barriers to entry, so we focus on understanding local regulations across various jurisdictions to develop solutions that offer lower eligibility requirements in full compliance with local laws.

It is important to recognise that, for many investors, these vehicles may be their only private equity investment. While we focus on building portfolios of the same quality for institutional clients investing hundreds of millions of dollars as we do for private investors who might be investing $10,000 or $50,000, we need to make sure the portfolio we deliver is well diversified and appropriate for someone with limited exposure to the asset class.

Education is a critical element of the democratisation of private equity – investors need to fully understand what they are investing in, not just in terms of the asset class but also in terms of structures, as well as risks. We believe private equity is an asset class that should be available to a much broader range of investors, but we and the industry need to prioritise the education component. Most of the time we are partnering with intermediaries such as private wealth firms or private banks to reach the individual investor. We prioritise education and seek to provide a high level of support to our intermediary partners and their clients.

> *"The traditional high-net-worth investor has not had meaningful exposure to private equity"*
>
> **MAURA REILLY KENNEDY**

> *"It is important to recognise that, for many investors, these vehicles may be their only private equity investment"*
>
> **PETER VON LEHE**

Q What are the challenges around offering these solutions? What capabilities does a manager need in order to do this successfully?

José Luis González Pastor: On the structure side, we operate multiple funds across different regulatory frameworks and jurisdictions, and it is an incredibly complex process that entails putting together many elements at the same time. It requires deep skill and expertise, and it requires scale in many functions and in many areas.

On the investment side, a manager needs to have a wide range of capabilities to design the right products for each client, to make sure they have a good experience with the appropriate solution. For instance, if you design an open-end vehicle in private equity where the client is putting all their capital in upfront, you need to design an investment strategy that is focused on capital efficiency, for example. In addition, because it is an open-end vehicle, you need to include liquid or semi-liquid strategies to manage redemptions, which goes back to the challenge of risk management.

In addition to structure and investment, we find managing vehicles for the individual investor to be a very resource intensive activity. You need to navigate different regulatory frameworks and you need sophisticated in-house tax and regulatory expertise, in addition to finance and operations teams that understand the structures and needs of the individual investor. Operationally, you must be able to support different vehicles in different jurisdictions, and you need management companies in different jurisdictions. We have a US manager for our US vehicle and a European manager for our European vehicle, for example, otherwise it would be difficult to market those products.

The final element is providing the support on the reporting side and delivering educational content when launching the vehicle so that investors are clear about the product and what they need to consider.

All in all, it is incredibly complex and requires scale and expertise in multiple areas and multiple functions.

PvL: Most private equity managers do not manage funds with thousands of underlying investors in them, and they do not have the systems and capabilities available to interact with that number of investors. That is where we are lucky to be part of a broader asset management firm that has been managing capital for the individual investor for more than 80 years across traditional equities and fixed income. ■

Peter von Lehe is head of investment solutions for private equity, and Maura Reilly Kennedy and José Luis González Pastor are managing directors at Neuberger Berman

Neuberger Berman

Founded in 1939, Neuberger Berman is a private, independent, employee-owned investment manager, structurally aligned with the long-term interests of its clients. The firm manages approximately $408 billion[1] in client assets on behalf of institutions, advisors and individual investors globally. Managing $105 billion in commitments,[2] NB Private Markets has a long history of offering innovative solutions across private markets to clients globally, including deep expertise and experience in launching and managing structures created for Intermediary and High Net Worth Clients.

1939 — Neuberger Berman founded by Roy Neuberger and Robert Berman

1987 — **Launch of the NB Private Equity Business**

2001 — Launch of fund of hedge funds business

2004 — Secondary capabilities established

2005 — Co-investment capabilities established

2007 — Inception of private equity emerging managers platform

Established NB Private Equity Partners (NBPE), a London-listed investment company

2009 — Neuberger Berman Group becomes a private, independent, employee-controlled investment management firm

2013 — Expanded private markets business to include private debt

2014 — Launch of brand licensing business (Marquee Brands)

2015 — Launched registered diversified private equity program

2017 — Inception of real estate secondary business

2018 — Launch of impact investing strategy, GP-Led secondaries focused strategy, specialty lending business and Insurance-Linked Strategies

2021 — **Launch of European long-term investment business ("ELTIF")**

Launch of registered evergreen private equity business

2022 — **Continue to expand intermediary focused offerings, including launching global evergreen solution**

The above timeline reflects strategies within NB Alternative Advisors LLC.

[1] As of September 30, 2022.

[2] As of September 30, 2022. Represents aggregate committed capital since inception in 1987, including commitments in the process of documentation or finalization.

NEUBERGER | BERMAN

Megan Starr
Carlyle

While ESG has continued to gain momentum in private markets, a lack of standardisation has proved a sticking point. A data-led, standardised set of principles against which managers and investors alike can measure ESG efforts is crucial to understanding how much progress is being made in key areas.

Widely regarded in the industry as an innovator in this area is Megan Starr, global head of impact at Carlyle. In September 2021, Starr played a leading role in the launch of the ESG Data Convergence Project, which Carlyle spearheaded alongside the California Public Employees' Retirement System, to help address this challenge.

As part of the project, participants track and report six metrics: Scope 1 and 2 greenhouse gas emissions, renewable energy, board diversity, work-related injuries, net new hires and employee engagement.

More than 230 GPs and LPs representing $24 trillion in assets under management have since signed up to take part in the project, which is now known as the ESG Data Convergence Initiative, with the Institutional Limited Partners Association serving as official secretariat.

"ESG is one of the more collaborative corners of finance, which is why the ESG Data Convergence Project was even possible," Starr told *Private Equity International* earlier this year.

"We have a similar collective objective as a private markets industry – better, more quantitative, comparable performance data on ESG, so that we can accurately assess progress over time and potential correlations with financial performance. We worked together to agree on a common way of tracking data in order to make that happen."

Starr joined Carlyle from Goldman Sachs' investment management division in 2019 to create and implement the firm's long-term impact strategy and oversee the ESG team, which leads Carlyle's investment diligence and portfolio company engagement work on ESG issues. Her work has continued to put the firm at the cutting edge of ESG developments, including innovations such as sustainability-linked loans.

Joseph Rice
Clayton, Dubilier & Rice

Joseph Rice, one of the four individuals to found Clayton, Dubilier & Rice in 1978, is widely regarded as one of the earliest pioneers of the leveraged buyout model. Per CD&R's website, Rice has said of the firm's founding: "In many respects, it wasn't really a business but a personal effort by a close-knit group, which wasn't exactly sure where it was headed, but shared a sense of common values and a conviction that combining operating and financial skills would produce better investment results."

Those values included the belief that LBOs – having fallen out of popularity at the time as a result of bankruptcies that followed the

"[We] shared a… conviction that combining operating and financial skills would produce better investment results"

JOSEPH RICE
CD&R

late 20th century LBO boom – had far more to offer than was widely believed. As an early proponent of the model, Rice led CD&R in several high-profile deals, including the acquisitions of rental car company Hertz, Goodrich Tire Company and Remington Arms.

Upon stepping down from his role as chairman of CD&R in 2012, Rice continued to contribute to the industry, including through his work with the Private Capital Research Institute.

Rice co-founded PCRI in 2011, inspired by PE's rapid growth. The aim, he told *PEI*, was to "increase transparency and understanding of private capital through academic research as the industry scales".

Jeremy Coller

Coller Capital

Mention the secondaries market in any discussion about private equity and Jeremy Coller's name is bound to come up sooner or later. While the former pension fund executive didn't execute the first ever secondaries transaction, his contribution to the evolution of the secondaries market is unparalleled.

Coller was working at the UK's ICI Pension Plan in the 1980s when a US venture capitalist named Dayton Carr came along with plans to raise a fund dedicated to acquiring second-hand stakes in private equity funds. Coller, who became the first institutional investor in Carr's fund, thought the idea was such a good one, he decided to launch a firm focusing on the strategy himself.

While Carr's firm, Venture Capital Fund of America, would remain focused on the smaller end of the secondaries market, Coller Capital would go on to become one of the industry's biggest players.

It wasn't all smooth sailing for Coller. In 1990, when he decided to launch the first European fund of funds to invest in co-investments, the first Gulf War broke out, throwing a spanner in the works of his fundraise.

"Necessity is the mother of invention, so I pivoted from 'what I wanted to do' to 'how do I get into business?'" Coller tells *PEI*. If the PE fundraising market was challenged in this environment, why not oil the wheels of liquidity and start a secondaries market, he thought.

By 2000, Coller had backed the first secondaries transaction worth more than $1 billion with the acquisition of UK bank NatWest's private equity portfolio. By 2007, just prior to the global financial crisis, Coller raised the largest dedicated secondaries fund at the time with a $4.8 billion vehicle.

"It took us four years to raise €50 million and in 2021 we closed our eighth fund at over $9 billion," Coller says, highlighting the firm's success over the years. "Along the way I industrialised the secondaries private equity market."

Industrialise it he did: secondaries market volume grew from a fringe activity in the 1980s to a roughly $130 billion market last year, according to intermediaries' estimates.

Coller Capital is not the largest secondaries firm. It does, however, hold its own within the top 10 biggest firms – its latest secondaries fund is a roughly $9 billion vehicle – and it is known for having the wherewithal to push into areas others shy away from. It is considering launching a yuan-denominated secondaries strategy in China and has launched a credit secondaries fund.

Says a veteran London-based intermediary who has worked with both the firm and its founder: "The market would be a lot worse off without them."

David Blood

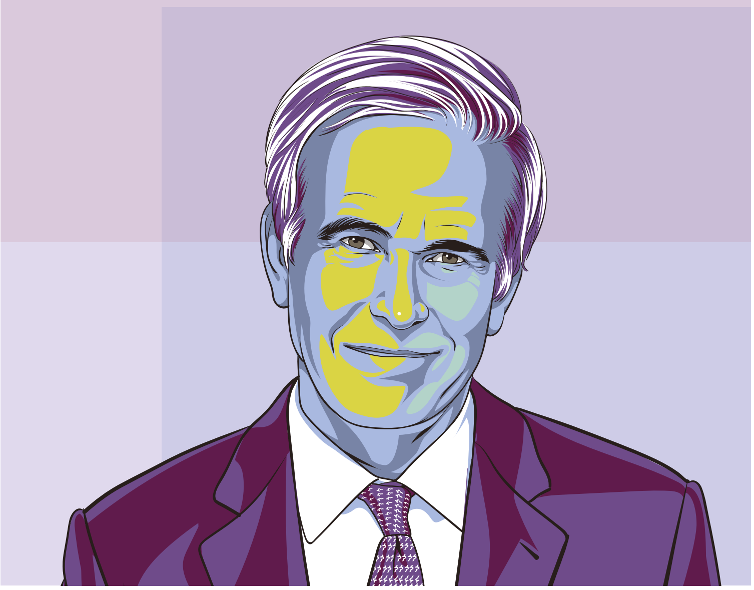
Generation Investment Management

Known for being ahead of the game in climate-focused investing, David Blood co-founded one of the first sustainability-focused managers in 2004 alongside former US vice-president Al Gore. Today, the firm has more than $36 billion in assets under management and invests around four core strategies: growth equity, long-term equity, global equity and Asia equity. Generation Investment Management continues to make waves: last year, it launched Just Climate, an investment business aimed at addressing the net-zero challenge at scale.

"We launched Generation with a singular mission: to deliver strong, risk-adjusted investment performance by taking a long-term view and integrating sustainability and [ESG] research into our decision making," Blood wrote in 2021. "Quite simply, we wanted to prove that sustainable investing was in fact the most sensible way to invest."

While there is still some way to go before sustainable investing can be called the central focus of private equity, it's clear that Blood's mission is making progress across the financial markets. A barrage of climate-focused funds have landed in the market over recent years and, according to Generation's *Sustainability Trends Report 2022*, private and public annual investment in the clean economy is surging towards $1 trillion.

Aside from his role as founding partner and senior partner at the firm, Blood is chair of Just Climate, chair of not-for-profit Social Finance UK and co-chair of the World Resources Institute. Prior to founding Generation, he spent 18 years at Goldman Sachs.



Nigel Dawn

Evercore

The secondaries market has grown in leaps and bounds over the past 21 years. In the GP-led secondaries segment of the market, where fund sponsors arrange optional liquidity processes for their LPs, few firms have been as successful as Evercore.

The investment bank's private capital advisory (PCA) group has worked on more secondaries transactions by dollar volume than any other firm since 2019, according to data compiled by affiliate title *Secondaries Investor*. In 2021, Evercore advised on $59.4 billion-worth of such deals – more than two-and-a-half times that of its closest rival.

Leading the PCA group of Evercore's secondaries practice is Nigel Dawn. Dawn didn't orchestrate the industry's first continuation fund. Instead, his contribution to the private equity industry has been in the way he and the team he leads have driven the boom in sponsors running continuation fund processes.

In recent years, Evercore, under Dawn's purview, has helped the likes of General Atlantic, BC Partners, Hellman & Friedman, Leonard Green & Partners, Clearlake Capital and Summit Partners with transactions that allowed them to hold onto assets via continuation vehicles.

Dawn's first foray into the world of secondaries began in 2003 when UBS sold $1.3 billion-worth of private equity fund interests held on its balance sheet to HarbourVest Partners. That deal eventually led to UBS deciding it could sell its expertise to others by launching an advisory business – with Dawn, who had joined six years prior, at the helm the following year.

A decade later, Dawn and fellow UBS executive Nicolas Lanel emerged at Evercore to launch a secondaries advisory business on both sides of the Atlantic. They set about building a team that remains largely intact today, including London-based Lea Lazaric Calvert,

Jasmine Hunet and Francesca Paveri, who today are the most senior executives in Evercore's European secondaries business.

In the early 2000s, there was still a stigma attached to LPs selling stakes in a limited partnership, Dawn tells *PEI*. "Many GPs viewed an LP requesting a transfer like they were receiving a divorce request from a spouse," he says.

Did he ever imagine the secondaries market would evolve to a $134 billion industry? "No," he says. "I would not have imagined the best GPs in the world would systematically use the secondaries market as a strategic tool."

Secondaries technology is still evolving, and the continuation fund market will be here to stay, he adds.

Dawn – who is the son of a steelworker-come-postal worker and a nursery school teacher – says he would like to see the benefits of and access to PE shared more broadly among the working population. He also says the asset class becoming more liquid would help its growth.

"The derivatives market only really took off with the advent of standardised ISDA documentation. PE needs to walk a similar path – the secondaries market would expand materially – potentially exponentially," says Dawn.

Sir Ronald Cohen

Global Steering Group for Impact Investment

Sir Ronald Cohen stands out among influential figures in private equity; he has not only shaped its history, but has a hand in its future.

Cohen co-founded the firm now known as Apax Partners. From its establishment in 1972 as a venture capital investor, it has developed into one of PE's enduring brands. In 2002, Cohen co-founded Bridges Ventures, a firm with a mission to combine attractive financial returns with positive societal outcomes, and to galvanise the creation of the impact investment movement. Twenty years later, Bridges Fund Management is known as a pioneer in an impact field that is now attracting floods of institutional capital.

Cohen is often referred to as the father of impact investing. The full list of global initiatives that he has either conceived or had a hand in is too long to relate here, but includes UK-based socially focused investor Big Society Capital, and Social Finance, a not-for-profit consulting organisation that helps governments and other entities tackle social problems.

Having helped shape the venture capital, private equity and impact investing fields, Cohen continues in his efforts to channel institutional capital to where it will create positive impact. Alongside his chairmanship of the Global Steering Group for Impact Investment, he is chair of the Impact Weighted Accounts Initiative at Harvard Business School. The IWAI was launched in 2019 to find a way of measuring and accounting for impact in a "single measurement unit, money", wrote Cohen in a recent essay.

"This new level of transparency (made possible by artificial intelligence, machine learning and big data) has the potential to transform our whole economic system," he wrote. "It will enable investors, talent and consumers to distinguish reliably between the positive and negative impacts of companies."

KEYNOTE INTERVIEW

An asset class propelled by innovation

Private equity's resilience and innovation have allowed it to continuously meet the needs of GPs and LPs, say Proskauer's Monica Arora, Howard Beber and Nigel van Zyl

The private equity industry has grown in size and sophistication over the past two decades, to the extent that it is almost unrecognisable from where it stood when *Private Equity International* was first published in 2001. Monica Arora, Howard Beber and Nigel van Zyl, co-heads of the private funds group at law firm Proskauer, tell *PEI* that the ability to innovate has been key to the industry's success and, despite the current downturn, they believe the asset class can look forward to a bright future.

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Q What are the main changes you have seen in PE since 2001?

Howard Beber: Everything about this industry has become exponentially bigger in the last 21 years including the sheer number of private equity firms, assets under management, fund sizes, and the universe of LPs and service providers active in the industry. Managers have not only grown in size, but platforms have expanded and evolved. Years ago, most managers focused on one strategy or vertical in a single geographic region. While those managers still exist, today many managers now manage multiple fund products focusing on diverse strategies and geographies.

Private equity used to be a small, niche and opaque market. It was under the radar and a relatively small part of investment portfolios.

The asset class is much more visible now than it was 21 years ago. As one would expect, as the asset class has grown and become more visible, it has attracted more attention from regulators and political administrations than in earlier years.

I don't think anybody could possibly have predicted, 21 years ago, what this industry would look like today.

Q How have private equity firms adapted as the market has grown?

Monica Arora: We have seen managers of private investment firms lean into the opportunities and challenges that have accompanied the evolution of the market. Many managers have grown by augmenting legacy businesses with new platforms, either organically or through consolidation. They have recognised the need to broaden, as well as deepen, their areas of focus and expertise as part of the natural progression of a maturing industry.

To achieve this growth, managers have continued to prioritise talent, and have become more sophisticated in utilising tools to attract and retain talent. For example, there has been a renewed focus on internal economic arrangements and the manner in which talent may participate.

This has coincided with a period in which founders and senior leaders of private investment firms are retiring, making succession a large focal point for managers and investors alike. Twenty-one years ago, it was common to have the investment manager of a private fund governed by a barebones document; those days are long over as managers understand the value of their franchise and the importance of their internal arrangements, both with respect to talent as well as potential third-party investment.

Another area where managers have particularly adapted is increased investment in their internal infrastructure. In addition to compliance, which has been essential, the investor relations function has become more important than ever. Whereas it used to be that a firm would raise capital every couple of years, fundraising has now become perpetual. And the technicalities and the manner in which fundraising is conducted have become more complicated, which has highlighted the importance of the compliance and the investor relations functions working together.

Q What trends have you seen around deal terms over the last two decades?

HB: The fundamental two-and-20 economic deal, generally speaking, hasn't changed all that much, but that is about the only thing that hasn't changed. Before the creation of the Institutional Limited Partners Association, LPs lacked the means to organise and act in a concerted manner. LPs, for the most part, had very little leverage from a negotiating standpoint. Once ILPA was established and received a lot of institutional backing, that changed.

What has changed most is the transparency of the industry. That comes from more robust and standardised reporting and much more intense due diligence. Limited partners now require much more transparency throughout the life of a fund than they had years ago. In addition to ILPA, the regulatory landscape for private equity managers has changed dramatically in the US and Europe, which of course has led to more robust disclosure and transparency.

"Many managers have grown by augmenting legacy businesses with new platforms, either organically or through consolidation"

MONICA ARORA

Q Given that the industry is more sophisticated, is it harder now for emerging managers to come into the space?

Nigel van Zyl: There are always going to be peaks and troughs in terms of when emerging managers enter the market. Right now, given the crunch on capital in the fundraising market, it is more challenging.

But in order for the industry to grow, we'll continue to see spinouts, and we'll continue to see emerging managers setting up new and different strategies. One of the things the industry is very good at is evolving and finding solutions to capital needs in the global economy. For as long as the industry maintains that adaptability, we'll continue to see emerging managers enter the market.

MA: Early in the pandemic, the thought was that activity related to emerging managers would come to a halt. However, contrary to belief, we've seen that investors like the idea of emerging managers. It is no doubt difficult to get traction, but superstar investors setting up their own firms with successful deal experience and strong relationships have done well.

In many cases, emerging managers initially launch on a deal-by-deal basis. This permits them to deepen relationships while building a proprietary track record that can help create momentum in the community.

Q One of the big changes is the growth of the secondaries market. Do you expect to see continued growth there?

HB: The secondaries market for LP interests used to be a very closed market. There were few buyers and if you were a seller, you were probably in, or perceived to be in, a distressed situation. This meant that portfolio sales were kept very quiet. That sentiment began to shift about 15 years ago as the industry grew and LPs started using the secondaries market as more of a portfolio construction mechanism, as opposed to a way to offload assets in a distressed situation.

In addition, as the PE market grew, many new firms entered on the buy side and the market for agents and other service providers expanded exponentially. This of course created a more efficient market. Of course, the GP-led secondaries market was virtually non-existent until relatively recently and has now become a very large part of the overall secondaries market.

Right now, the market happens to be down, but in normal conditions, it is a fluid and liquid market for LP interests and GP-led deals. We expect that it will come back as markets stabilise.

> *"The industry is successful because it involves smart people who innovate to meet capital needs"*
>
> **NIGEL VAN ZYL**

NvZ: The industry is successful because it involves smart people who innovate to meet capital needs. Secondaries is a great example of this. Whether it's the buying and selling of LP interests, which has now become market practice, or the more recent development of continuation funds set up to provide GPs and investors the opportunity to continue to own assets beyond the traditional hold period while providing liquidity to those LPs who want it, I think GPs and LPs recognise that private equity is not necessarily the illiquid asset class it was once perceived to be.

One of the other innovations we have seen is the longer life, 15-to-20-year, fund. These have evolved from a recognition that for some assets the value proposition is longer than a traditional 10-year fund. These are all examples of an industry that does not stand still, it innovates, it evolves and it solves.

Q What has driven the rise of ESG in private equity?

NvZ: The industry cannot exist in isolation or ignore macro events, whether they are financial, social or environmental. ESG impacts everyone, from consumers to employees and investors, and therefore impacts the sustainability of the industry. Environmental and social issues are at the forefront for almost every investor and every manager and are also now a focus for regulators.

The rise of impact funds has been a particularly interesting development over the last few years. That is another example of innovation – seven or eight years ago, there were just a handful of impact funds but now impact investing is becoming a large subsector of the asset class.

Firms are asking their portfolio companies to be accountable to all stakeholders, whether that is their owners, their customers, or others impacted by their activities. It is also about the industry being relevant to the broader economy and society.

ESG issues are going to become increasingly urgent – and I am sure private equity will, as it has done on many other occasions, be one of the solution providers.

Q Will the political controversies around ESG force PE firms to change their strategies?

MA: There are many components of private equity that have been politicised, particularly in the US. Whereas some investors have mandates that require the incorporation of ESG-criteria by managers, others (specifically certain US state plans) have more recently enacted investment mandates requiring investment decisions be made solely on pecuniary factors (ie, disallowing the consideration of ESG principles under the theory that ESG comes at the expense of returns).

Despite this divide, it is standard for large asset allocators – globally, and particularly in Europe – to require that GPs have robust ESG policies and procedures. I do not know of any of our private fund clients that do not have a policy related to ESG. Firms are going to have to perform a continuous balancing act. ■

'The importance of good partnership'

PEI's Changemakers on the most valuable lesson they have learnt over the course of their careers

"The importance of good partnership. We believe this to be a factor central to delivering good performance"

Ali Raissi, managing director and global co-head, Petershill Partners

"Values matter most and should inform all endeavors. People partner with those they trust; do what you say you'll do and always persevere. I believe that is what permits success"

Joseph Rice, co-founder, CD&R

"Alignment. Alignment. Alignment"

Jeremy Coller, chief investment officer, managing partner and founder, Coller Capital

"Staying true to your investment strategy and executing on improvements every day is absolutely essential to long-term success"

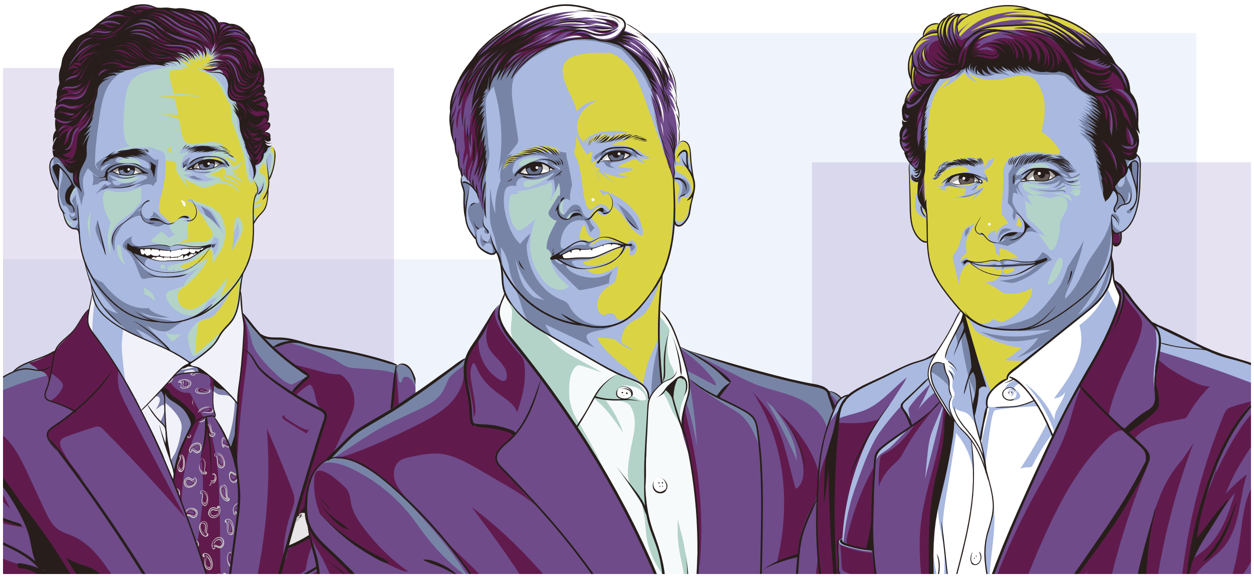
Jan Ståhlberg, founder and managing partner, Trill Impact

"Within reason, purchase price is not that important. Missing the macro, backing the wrong leader, etc, – those mistakes are what create losses and also tie up all of your time and resources"

Pete Stavros, partner and co-head of Americas private equity, KKR

"Kindness is never overrated"

Megan Starr, global head of impact, Carlyle



Lawrence Calcano, Dan Vene and Nick Veronis

iCapital

Private equity has long been looking for ways to access the private wealth market – a granular, but lucrative, source of capital at scale. Though an increasing number of fundraising platforms have sprung up to smooth the gap, iCapital is arguably the only one close to moving the needle. As of 30 September 2022, it serviced more than $148 billion in assets globally. By comparison, its closest peers have each raised less than $5 billion.

iCapital is led by chairman and CEO Lawrence Calcano, and co-founders and managing partners Dan Vene and Nick Veronis. Calcano began advising and working with iCapital shortly after it was founded in 2013, and joined full time as chief executive in early 2014.

Vene is head of iCapital Marketplace and leads platform integration with banks, asset managers, wirehouses and other large-scale organisations. Prior to founding iCapital, Vene was head of private real estate capital raising at Fir Tree Partners.

Veronis is head of portfolio management at the business. He previously spent 11 years at mid-market PE firm Veronis Suhler Stevenson.

> *"We would like to see advisers help create successful outcomes for clients through exposure to... private markets with the right technology, tools, education and access"*
>
> **LAWRENCE CALCANO**
> **iCapital**

iCapital is quickly becoming one of the most influential players when it comes to accessing private wealth at scale. Its significance is reflected in the types of organisations that have already invested in the company itself, including Blackstone, UBS and Singaporean state investor Temasek.

At a time when many institutions are finding themselves overexposed to the asset class, new sources of capital are becoming ever more important. iCapital, with its feeder funds and white-label fundraising technology, will be at the forefront of private equity's push into these untapped pools of funding.

Calcano tells *Private Equity International* that technology will be key to optimising access to the asset class as it opens up. Going forward, he says, "we would like to see advisers help create successful outcomes for clients through exposure to the best managers across private markets with the right technology, tools, education and access".

Kathy Jeramaz-Larson

Formerly at ILPA

Kathy Jeramaz-Larson made significant contributions to the PE industry and to the Institutional Limited Partners Association during her tenure as executive director at the organisation. She led the group between 2007 and 2015, through what was arguably the most transformative era in the private equity industry for LPs. Most notable was the development of ILPA's Private Equity Principles, released in 2009 and updated in 2011, and used by LPs to guide the negotiation of favourable fund terms in the limited partnership agreement. The best practices – relating to the alignment of interest between GPs and LPs, fund governance, transparency and reporting – are widely credited for facilitating greater dialogue on fund expenses and fees during LPA negotiations, with GPs conceding more fees back to the fund.

Under her leadership, ILPA created reporting templates aimed at standardising documentation around capital calls and distribution notices. In 2012, ILPA teamed up with Cambridge Associates to create a PE benchmark using funds from its own members. The result was a proprietary index of more than 1,800 funds, owned by ILPA's members at that time.

"[Her] tremendous legacy at ILPA involves having grown the organisation from a small group of LPs to a leading global private equity association with more than 318 members," said Michael Mazzola, former ILPA chairman and ex-MetLife Investments managing director, in a statement about her departure in 2015.

Jeramaz-Larson went on to run boutique strategic consultancy KJL Consulting, before retiring last year, per her LinkedIn profile.

Pete Stavros

KKR

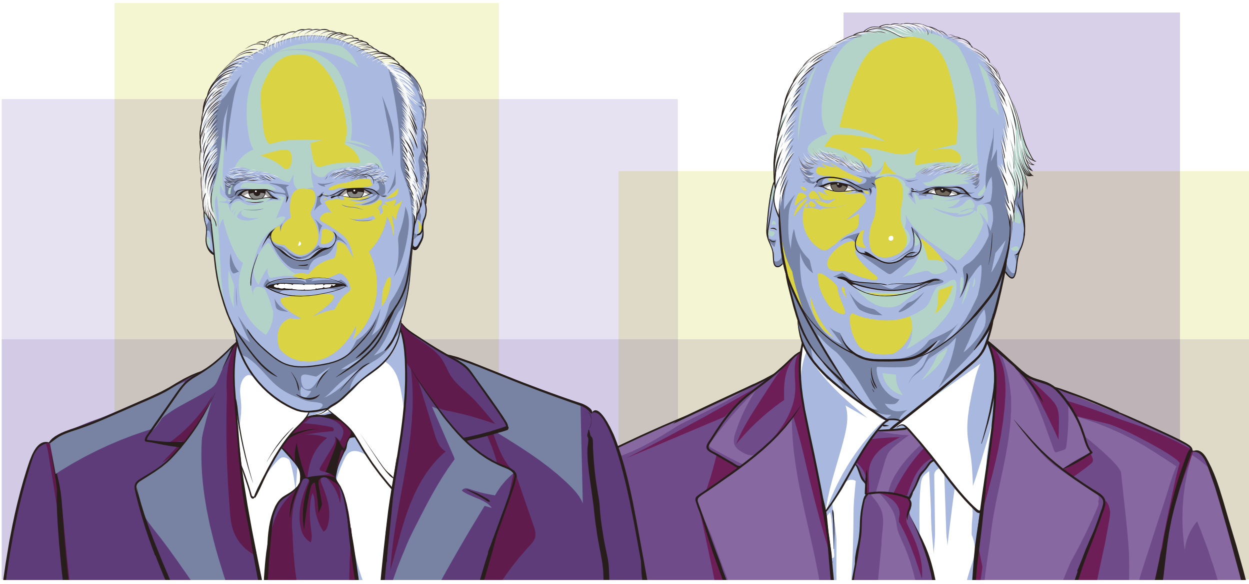
Pete Stavros, partner and co-head of Americas private equity at KKR, is a pioneer of the shared ownership model. Stavros and his team have been at the forefront of a movement to include portfolio company employees in the equity upside of private equity buyouts, with these efforts garnering Stavros the 'Game Changer of the Year' accolade in *PEI*'s 2020 Annual Awards.

One such example of employee ownership in action is CHI Overhead Doors. In May, KKR unveiled a $3 billion exit for the garage door manufacturer, which returned 10x its initial equity investment. Upon completion of the sale in June, all 800 employees benefited from an average cash pay-out of $175,000 from their equity in the company.

Stavros told affiliate title *New Private Markets* that revealing details of the deal to employees in person was "one of the most joyful things I have been involved in in my life".

"CHI is a powerful testament that creating a culture of ownership works," said Stavros. "We have seen first-hand the impact that the ownership mindset can have on individual owners and the business. When you invest in employees, positive results will follow."

Stavros' passion for employee ownership looks set to have a far-reaching impact. Earlier this year, he founded Ownership Works, a non-profit with a mission to support public and private companies transitioning to shared ownership models, which had already garnered support from more than 60 investors, asset managers, advisers and service providers upon its launch in April.



Henry Kravis and George Roberts

KKR

Cousins Henry Kravis and George Roberts have left an indelible mark on the private equity industry. Along with the late Jerome Kohlberg, they co-founded Kohlberg Kravis Roberts in 1976, where they began pioneering leveraged buyout transactions.

Kravis and Roberts cut their teeth at Bear Stearns before leaving to launch KKR. During the firm's first few years, the pair oversaw numerous market-shaking acquisitions, including the first buyout of a public company by tender offer in their acquisition of Malone & Hyde in 1984, and their investment in household-name retailer Safeway in 1986. But perhaps their most well-known deal involved RJR Nabisco, which was acquired by KKR under their supervision in 1989. The $31.4 billion buyout was the largest in history at the time, and it prompted Ted Forstmann, whose buyout firm Forstmann Little had initally expressed interest in bidding for the business, to call his rivals "barbarians" – one of the most memorable monikers in PE.

When *PEI* compiled its '100 industry influencers' list in 2011, it included Kravis and Roberts in the top five, dubbing them "transformers". Their dedication to making and not following trends has seen their firm go from strength to strength. Under their leadership, as of 30 September 2022, KKR had completed some 685 PE portfolio company investments and add-ons with a total value of more than $693 billion.

> *"We are proud of what we have built to support companies and serve our clients over the last four and a half decades"*
>
> **HENRY KRAVIS & GEORGE ROBERTS**
> **KKR**

KKR's scope has also expanded to the point where describing it as a 'PE firm' no longer does its operations justice. The firm, which had $496 billion in AUM as of 30 September 2022, now also manages credit, infrastructure, real estate and energy investments, among others.

In October 2021, the industry titans announced that, after 45 years as co-chief executives, they were stepping down from their roles, but would remain involved as co-executive chairmen of KKR. In a joint statement, Kravis and Roberts said: "Whether reflecting on the business, our mission or the team that undertakes it, we are proud of what we have built to support companies and serve our clients over the last four and a half decades."

'Returns are a prerequisite but no longer sufficient'

PEI's Changemakers on the most significant change they've witnessed in the asset class during their time in the industry

"Many more investors benefit from exposure to this asset class, but it requires a comprehensive technology platform that optimises the process for wealth managers and their clients"

Lawrence Calcano, chairman and CEO, iCapital

"Returns are a prerequisite but no longer sufficient – private equity also has to demonstrate how its business model benefits people and the planet to persist"

Megan Starr, global head of impact, Carlyle

"The industry's incredible growth. This has had many knock-on effects, some of which are still playing out – like questions about the impact of PE on society"

Pete Stavros, partner and co-head of Americas private equity, KKR

"It's encouraging to see the growing number of mission-driven entrepreneurs seeking long-term investors with aligned values around sustainability. We see this across our private equity strategies – growth equity and long-term equity – and Just Climate, our climate-led investing business"

David Blood, founding partner and senior partner, Generation Investment Management

"The normalisation of private equity – it has evolved from a minority sport that no one knew much about to an asset class that contributes in a meaningful way to the returns of pension funds and other investors"

Wol Kolade, managing partner, Livingbridge

KEYNOTE INTERVIEW

A bigger, more complex industry

Manager consolidation and developments in private equity regulation and technology will drive service providers to scale up further in response, says David Fowler at Apex Group

Q What are the next 21 years likely to hold for private equity?

It is going to be an exciting time. The asset class has seen tremendous growth over the past 21 years, and we expect that to continue with an overall increase in allocations to private equity and illiquid assets. Part of that will be down to a greater number of entry points for retail investors coming to fruition. Historically, private equity has been driven by institutional investors and large family offices, but we will start to see an increasing democratisation of private equity so that the average person on the street can access the asset class.

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APEX GROUP

In terms of trends, we expect to continue to see greater specialisation among GPs. The generalist buyout strategy is not dead, but there will be more focus on particular industries and even sub-sectors of industries, such as healthtech and fintech. We will also see much more of a focus on specific countries, creating an opportunity not only to make better investments but also to offer LPs the ability to allocate to certain geographies and industries via specialist managers.

The consolidation of the GP landscape will continue, with larger managers scooping up some of the smaller players through M&A activity. We will see larger managers completing much bigger fundraisings in the next few years as smaller managers suffer, because LPs will favour experience and track record during more challenging economic times. Bigger managers will be the immediate winners through the recession – we will see if that starts to change afterwards.

Larger funds also have the advantage in their capacity to deal with the increasing burden of regulation, with the cash to invest in large compliance teams. We are going to see growing government oversight of private equity, partly driven by the needs of retail investors coming into the space, whom regulators will be keen to protect.

On the tax side, there is a convergence of tax systems around the G7 countries and that will have an impact on private equity as the advantages of different jurisdictions over others for structuring play out. We may see a shift to more onshore structures than we have seen in the past.

Finally, we expect to see greater investment in technology and outsourcing on the part of private equity, supporting the data analytics that funds are looking for to allow them to make quicker, data-driven decisions.

Q What developments in technology can we expect to support the asset class?

There are clearly a lot more fund managers focused on making technology investments, and ultimately private equity managers do like to use the businesses they are invested in, so that is supporting the more widespread use of tech in the asset class.

There is also a real drive for more transparency coming from regulators, and that is pushing demand for technology to capture investment data at the portfolio company level, and to push that through to both regulators and investors so that they have transparency over their full investment book.

On the front-office side, we are going to see more artificial intelligence being employed to help support investment decisions, data and technology being used to make those decisions at a faster pace than we have seen previously.

The challenge for managers will be how they capture data and ensure that it is accurate and verifiable. The technology exists to support these decisions, but managers and portfolio companies need to get comfortable with the data capture stage.

More widely, technology is going to be used to a greater extent in investor services, investor relations and the client relationship management side of servicing. Looking to the future, this will be utilised much more than in the past, and at Apex Group we saw the need to provide a single-source solution that allows managers to log into a secure central point and have access to all their information, right from their investment data, performance, scenario planning through to ESG reporting and benchmarking.

One way in which we can look at the evolution of technology in private markets is to compare where we are as an industry versus the banks, which have traditionally always been a few steps ahead. I expect that to change, and I see private markets getting to a point where everyone – whether they are an investor or a manager – has access to information and resources at the click of a button through a mobile app. That progress is going to be driven by service providers.

Q How might ESG and DE&I requirements evolve in private equity?

There has been an increase in the pace and extent of regulatory change around ESG in recent years, but the big change has really been a cultural shift. We have seen a move away from ESG as a tick-box exercise to GPs structuring and driving their businesses around

Q Do you see M&A driving positive change in the industry?

Ultimately, M&A activity at the manager level is going to drive consolidation, and we see signs of that activity increasing. That will give rise to larger managers with greater pools of capital and bigger investment teams, giving them the ability to focus on both returns to investors and making a positive impact as an asset class.

Over time, large private equity fund managers are going to have the people, the capital and the scale to look insightfully at ESG and DE&I, which is maybe more difficult to tackle as a smaller manager. Further downstream, they will also make greater use of their ability to leverage influence over portfolio companies, and in so doing have the potential to play quite a significant role in driving positive change more broadly.

ESG strategies. That is not just driven by regulation but also by investors: we see a lot more due diligence requests around the ESG components of private equity funds and strategies, and those are not just looking at the portfolio but at the managers themselves.

At the GP level, investors expect managers to walk the walk on diversity and inclusion, the environment and governance – historically there has been more focus at the portfolio company level, but this is now moving to the GP too.

While institutional investors are starting to look at this, as private equity enters the retail market and a new generation of investors comes into the asset class, that will shift even further. These new Gen Z investors have been brought up with an understanding of environmental and social concerns, so that is a bigger part of how they view the world and how they are going to invest. It is only going to become more and more important for private equity managers to be able to answer these questions.

> *"Managers are increasingly focused on technology, but they also want to see the security and infrastructure around that technology"*

Q Do you envisage the democratisation of private equity being an important ongoing theme, as retail investors seek to allocate to private markets?

We are certainly seeing that democratisation of private markets being a theme, both in terms of retail investors coming into the asset class but also with different markets starting to invest in private equity. In those emerging markets where 20 years ago the pension funds were largely invested in bonds, they are now at a maturity level where they are allocating more of their funds to private equity. That is a good thing for the asset class and a positive development for those jurisdictions in terms of diversifying their portfolios.

Broadly, there are going to be further implications of that democratisation on the regulatory side, because we are inevitably going to see increased regulation of private equity as more investors come in. Because retail investors tend to have smaller amounts of capital to invest, fund structures will need to evolve to allow that access. We are going to see more hybrid structures holding both private equity and more liquid investments, with platforms to allow managers to hold that mixture of asset classes to facilitate access and liquidity for different types of investors.

As a single-source solution service provider, we are developing a product offering that brings together the expertise from both liquid and illiquid asset classes.

Q Are current recessionary trends increasing appetite for outsourcing? How do you expect that demand to evolve over the next two decades?

Given the recessionary trends, the outsourcing model is increasingly popular because it allows managers and funds to both cut their cost base and manage their operational risk. We see an increase in outsourcing happening to take some of those larger costs off the balance sheet, and that makes sense from a risk perspective.

Managers want to focus on their core investment capabilities, which means making strong decisions on behalf of investors. They increasingly want to pass anything beyond that on to a trusted service provider with whom they have a relationship. Having one provider versus working with many is also something managers are doing. They want to work with a fund administrator and a corporate service provider for the full life cycle of the fund that also have the capabilities to offer depositary, AIFM and management company solutions to further support managers with marketing their funds – a single-source solution.

Speed to market remains key in being competitive. Service providers that offer digital banking solutions speed up the process and offer managers and funds consolidation when it comes to opening accounts and doing AML/KYC (anti-money laundering and know your customer). With the uptick in crypto and digital assets, managers want to work with established providers that already have a solution in place so they are able to launch and go to market much faster.

Managers are increasingly focused on technology, but they also want to see the security and infrastructure around that technology. You need to be a business of sufficient size to support that infrastructure while also continuing to meet ongoing regulatory requirements.

The long-term trend is towards further outsourcing, and we expect a recession to accelerate that. In turn, alongside the consolidation taking place at the GP level, there is continued consolidation among service providers. We are a clear example of that, with Apex Group having recently acquired Sanne. We see the power of consolidation and how this supports global managers that expect their providers to be available in multiple jurisdictions and support them with cross-border capabilities. ■

David Fowler is global co-head of product, private equity at Apex Group

Level 20

In 2015, a group of 12 private equity professionals co-founded the non-profit organisation Level 20 with the aim of improving gender diversity in European PE. The goal was to see women hold at least 20 percent of senior investment positions in the industry.

Since its inception, Level 20 and its co-founders have championed diversity, equity and inclusion in the asset class, galvanised efforts to better recruit, retain and promote women across the industry, and put DE&I squarely on senior leaders' agendas.

Private Equity International's Carmela Mendoza caught up with some of Level 20's co-founders to find out more about its inception and what's next for the organisation.

Seeds of change

"When we got together in 2015, we did not feel there was a lot of women in senior leadership in private equity," Jennifer Dunstan, a co-founder of Level 20 and partner and head of fund investor relations at 3i, tells *PEI*.

"We looked back 15, 20 years and were very alarmed that we could not see a change in the number of women represented at the senior level. That was a lightbulb moment that we needed to do something to change that and to find a way of bringing women together," she says.

Seven years later, Level 20 has flourished from its initial co-founding team of 12, to over 4,000 individual members across 12 chapters in Europe. Its executive team, led by CEO Pam Jackson, has grown to 10.

Emma Osborne, a co-founder of Level 20 and a member of the executive advisory council at New Mountain Capital, says that one of the ambitions of the founding group was for younger women to access the support and inspiration that they had given each other over many years through professional and personal challenges. As a result, mentoring and networking

Kathleen Bacon

Senior adviser at HarbourVest Partners

Dana Haimoff

Managing director and portfolio manager at JPMorgan Asset Management

Cécile Belaman

Managing director at Bain Capital

Lori Hall-Kimm

Senior managing director and head of global private equity at Healthcare of Ontario Pension Plan

Jennifer Dunstan

Partner and head of fund investor relations at 3i

Alexandra Hess

Partner at Cinven

Kathryn Mayne

Managing director at Horsley Bridge International

Emma Osborne

Executive advisory council at New Mountain Capital

Christina Pamberg

Managing partner at Alcyon Holding

Hanneke Smits

CEO of BNY Mellon Investment Management

Helen Steers

Partner at Pantheon

Sasha van de Water

Managing partner at Keyhaven Capital Partners

are among Level 20's core activities. To date, over 700 women have participated in Level 20's mentoring programmes. An analysis of the first five years of the UK cohort showed that 96 percent are still in the industry – "a very high retention rate and a testament to the effectiveness of our initiative", Osborne says.

"We always knew that we would need to include men in the conversation to have any hope of effecting change in the industry. Our ethos has therefore always been inclusive, aiming to support and guide rather than criticise," says Osborne.

Along with mentoring, Dunstan notes that collecting diversity data, carrying out research and feeding that back into the industry is an important aspect of the organisation's work. "This is not a women's-only network. This is about including everybody in the industry and working together to make sure that we can really change the landscape and have a very positive impact on the numbers of women working across the industry."

She notes that this is mainly about providing GPs with access to information and resources that focus on attracting, retaining and promoting women in private equity. Says Dunstan: "If you are a smaller scale firm, for example, and you are trying to work out what parental leave policies are operating in other firms, we provide access to them. There are a lot of practical things that GPs can do."

Exceeding expectations

Helen Steers, a co-founder of Level 20, a partner in Pantheon's European investment team and senior manager for its listed global private equity investment trust, says a key turning point in the organisation's journey was the realisation that the appetite for membership and the subsequent demand for services – including the mentoring scheme, research projects and programme of events – vastly exceeded the founding group's expectations. "We significantly underestimated the work involved in starting up a new non-profit organisation, staffed and run entirely by volunteers, all of whom had day jobs! Very fortunately, our first chair, Hanneke Smits, was able to dedicate more time to Level 20, and really kick-started the initiative."

Taking in sponsorship from GPs in 2016 enabled Level 20 to professionalise and move away from a fully volunteer-run organisation. According to Steers, that breakthrough came when it became obvious that to do things properly, they could not rely on membership fees and had to think about long-term funding. Now the organisation has over 100 sponsors consisting mainly of GPs, as well as LPs.

What of its core objective to increase the number of women working in senior investment roles in the industry to at least 20 percent? Its *European Gender Diversity Report 2022* found that 20 percent of investment professionals in European PE and VC are women, but that figure falls to just 10 percent at the senior level. The report revealed, however, that more than a third of investment professionals at the junior level are women – a positive sign that diversity levels could rise in the future if action is taken to retain and promote female talent.

"Level 20 is doing so much on so many different levels that this target is not the be-all and end-all," says Dunstan.

Where does Level 20 go from here, we ask. Dunstan says they have to keep evolving and developing, with more to do on the international side.

"Eventually it is important to have one umbrella organisation for the industry. The journey is far from over. But we have made great progress and it has been a very exciting journey so far."

Wol Kolade
Livingbridge

Wol Kolade has spent almost 30 years at UK-headquartered mid-market buyout house Livingbridge. Alongside his role as managing partner at the firm, Kolade has held various industry and charitable roles. In 2007-08, he was chair of the British Private Equity and Venture Capital Association, and today he is deputy chair of NHS England and sits on multiple advisory boards, including that of diversity-focused non-profit Level 20.

Throughout his career, Kolade has been working to drive change across the asset class and the sectors it invests in. Following the murder of George Floyd in May 2020 by a police officer in the US, and the subsequent civil unrest, Kolade penned an open letter. In it, he said he would be asking his colleagues and fellow board members "to look again at the steps being put in place to address the shockingly low representation of BAME leaders in private equity, business and healthcare".

What followed was the founding of 100 Black Interns alongside Michael Barrington-Hibbert, chief executive of recruitment firm Barrington Hibbert Associates, entrepreneur Dawid Konotey-Ahulu and Capstone's president, Jonathan Sorrell. The goal was to offer 100 internships to Black students and recent graduates in investment management. In a matter of months, the programme had been enlarged to 10,000 Black Interns, offering internships that today span over 25 sectors.

"Black talent would not have seen private equity as a place to come, mostly because they look around and see very, very, very few who look like them," Kolade tells *PEI*. "What this has done is demystify private equity. [It gives private equity] access to really talented people… and has made it a viable, credible career choice. That's really helpful."

The firms participating in 10,000 Black Interns include blue chip names as well as some "really small firms", which Kolade says, "is the big thing". "This is not just the big boys doing it because they 'can afford it'. The whole industry is saying we have a problem."

Although the programme is "a very visual, very impactful, very quick way" to address the problem, it does not address the whole issue. "As my colleague Dawid [Konotey-Ahulu] likes to say, 'we've unkinked one part of the hose pipe with talent to the top. There are other kinks which we need to address'.

"But if we get it right, it helps you to accelerate change in your firm," Kolade adds. "I think that's the thing that people would say [about the programme] – it accelerated change in their firm."

'Allow more people access to what PE can do'

PEI's Changemakers outline how they would like to see private equity evolve over the next 21 years

"I want to see GPs maintain their core values amidst growth. I believe firms must build public trust – and ensure value-creation models meet the pressing business and social needs"

Joseph Rice, co-founder, CD&R

"We would like to see a more flexible approach to time horizons… Giving portfolio companies the opportunity to stay private for longer to deliver sustainable change across their sectors can create more value"

David Blood, founding partner and senior partner, Generation Investment Management

"The professionalism of the PE industry must be combined with a purpose-driven investment approach making the world a better place. Impact investing is a huge opportunity and a moral obligation"

Jan Ståhlberg, founder and managing partner, Trill Impact

"One exciting development in private equity is the democratisation of access. Alternatives are opening to private investors and we expect this to be a meaningful channel for raising capital in the future"

Jeremy Coller, chief investment officer, managing partner and founder, Coller Capital

"I would like to see the industry contribute more fully across the whole economy and allow more people access to what PE can do. Entrepreneurs should view PE as a normal part of how they look to grow their company"

Wol Kolade, managing partner, Livingbridge

"For private equity to be a true force for good in the economy, including via broad-based ownership. PE has the potential for massive impact given how many jobs, facilities, etc, we all oversee"

Pete Stavros, partner and co-head of Americas private equity, KKR

KEYNOTE INTERVIEW

New investor profiles drive thematic push

As private markets continue to evolve, there will be more than enough investment opportunities to absorb new capital flowing in, says Schroders Capital global head of private assets Georg Wunderlin

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Q How is the private markets investor base changing?
We are increasingly seeing two new forms of investors coming in: high-net-worth investors and affluent investors. High-net-worth investors will probably invest approximately €100,000 to €200,000 per ticket, whereas affluent investors will invest around €10,000. Then, of course, there are defined contribution pension funds increasingly becoming active.

This shift is not happening overnight, it is one that has been happening over the course of several years. Every year we see more capital coming in from those new sources, and pretty much stable allocations in the traditional institutional investor groups.

Q Private equity has been considered too complex for the man on the street to invest into. Is this outdated?
Regulators have thought about this quite a bit. The Alternative Investment Fund Managers Directive was launched several years ago to essentially eradicate, among other things, the so-called grey capital market, which is the unregulated end of the private client capital market, often related to private assets. Of course, now a lot more regulation has come in for the industry. Managers are regulated, and new fund structures have been created that have much more rigorous characteristics. This includes criteria around minimum diversification, maximum foreign currency exposure, and the way products are sold and explained to clients, as well as what the qualifications are of clients in the sense of understanding what they are investing in. This is all very good.

At the same time, it has been the aim of regulators to give private clients access to a significantly growing part of capital markets. Public markets are shrinking, private markets are constantly growing and will continue to grow, so it is important that private clients get access to some of the most attractive return sources in investing. Balancing that with making sure this happens in a safe way is something that is progressing step by step. That has brought with it new formats, such as long-term asset funds (LTAF), in the UK, and European long-term investment funds (ELTIF), as well as similar formats in some other countries that make it possible for private clients to invest in private equity.

However, what is holding up the adoption of private assets is not only having the right formats and creating the right products, but making sure investors understand what they are investing in. Educating investors is key. It is a big task for us as asset managers, and an even bigger task for the wholesale distributors – that is private banks – to make sure that what is getting sold is sold with the right explanations attached.

It is important that clients fully understand what they are doing, as well as the extent to which they can bear the illiquidity that comes with investing in private markets. That works more easily in certain parts of a private client's asset allocation – in personal pension savings, for example. People need to understand that higher returns come with the price of sacrificing some liquidity. It is just not possible otherwise to achieve those returns.

Q How do approaches to private assets differ for institutional and individual investors?

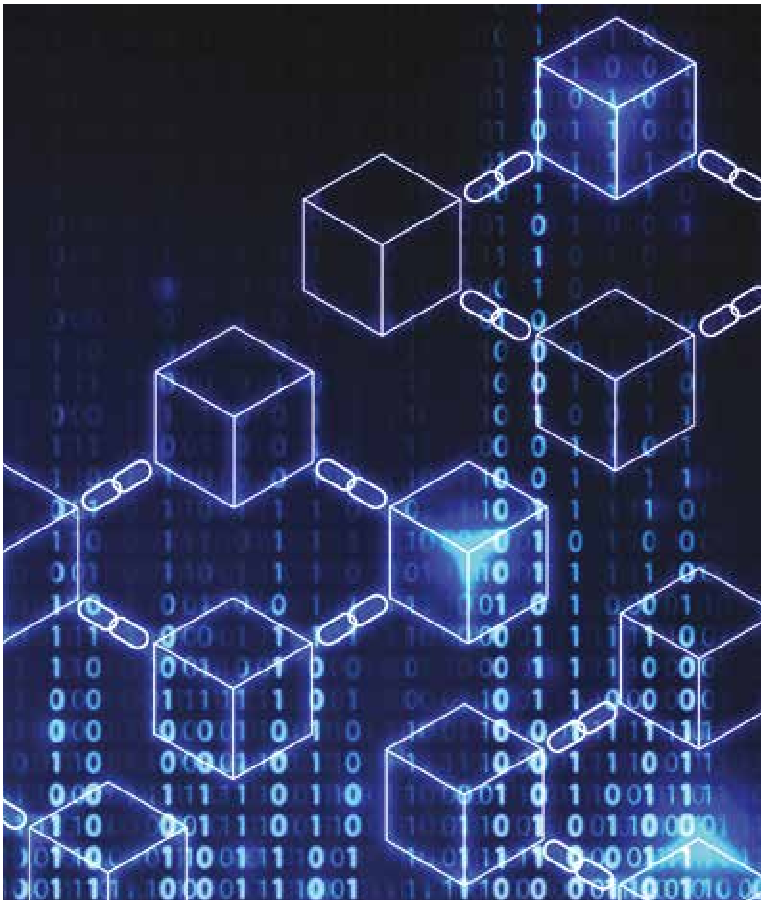
Private clients typically have maybe one chip to put in the market per year, and not 10 or so investment decisions per year, so the way they go about constructing a portfolio, by definition, must be different. It also needs to be more convenient administratively. For private clients we see demand for a

Q How do you see the investable universe changing in the future?

Once new fund structures have started to establish themselves and proliferate, more investors will be investing into private markets to address their systematic underallocation. At the same time, the investable universe will also be growing. Private markets have historically been limited to private equity and real estate; for the last 15 years, there has also been private debt and infrastructure. Next may be natural capital and various digital assets.

As we move in the direction of digitised or tokenised assets – it's a bit too early for this, still, but this is happening – let's say over a five-year period, many more assets will become set up 'on chain'. Consequently, the industry will increasingly be overcoming the bite size problem, and the friction costs of transferring assets from A to B will decrease. Right now, deals are very chunky, and it is very expensive to sell and buy a private asset.

If you imagine that trading becomes frictionless and more fractionalised in a tokenised world, the combination of both trends – democratisation and digitisation – is very interesting. You will have ever more investors investing in smaller and smaller chunks in private markets, and you have more frictionless and more fractionalised private markets, which together deliver significant growth potential. If you look at a maybe five-to-10-year horizon, this gives rise to another doubling at least of private markets.



more diversified portfolio – for example, private equity, private debt and infrastructure combined in one portfolio; or diversified within one asset class, for example an Asia fund, or a thematic fund.

That is not so much the case for institutional investors, which typically need building blocks that fit their, often regulated, allocation buckets. So, dealing with private clients actually means offering private equity and private markets generally more in themes and in a more diversified way.

Of course, the wrapper is different from the typical institutional private market fund, because these are investors with specific requirements; they invest in an ELTIF or a semi-liquid fund and not in an LP structure, and then it is more thematic in the approach, more diversified and often embedded in a multi-private asset product.

We are also seeing a much bigger push and demand for sustainable themes. Taking the decision to, for example, invest via a DC pension in a way that is equally producing the financial return, but also the sustainability outcomes, is something you see more clearly coming from private clients.

> *"People need to understand that higher returns come with the price of sacrificing some liquidity"*

> *"We are seeing a much bigger push and demand for sustainable themes"*

Q How do you think the private assets landscape will change with this extra capital flowing in, particularly from DC pension funds?

We will see more capital going into sustainability themes. However, we need to put that into context. Private capital as a percentage of the overall capital going into private markets is maybe still only around 10-15 percent at the most. But it is growing every year, so you will see more capital pushing and moving into those mega-themes that define our times. Therefore, you will likely see capital going into, for example, other thematic areas such as innovation.

Historically, there has always been a lot of appetite from private clients in technology and venture capital, for instance around progress in healthcare or energy transition.

Q Are private equity's fees a hurdle for DC pension funds?

The fee cap applies on the total portfolio level, it doesn't apply for one single asset class. So, DC pension funds can pay typical private market fees, but it limits their exposure, because they need to make it up somewhere. There is perhaps a little bit of movement needed from both ends of the spectrum.

First, the regulator needs to loosen the fee cap for investment strategies that, by definition, are just more expensive to run. In private equity for example, you have to source a company, which is private, it is not just listed somewhere and you can simply buy its shares. You must find and negotiate the deal, manage the company, run a value-creation programme and, at some point, you need to find a good buyer to exit it to. This is not cheap for an asset manager to run, so regulators must be mindful of the work needed for certain strategies.

The other side, of course, is there are some ways to mitigate fees by asset managers as well. To some extent that is a function of scale, to another extent it is a function of, for example, using co-investments, which come with a slightly lower fee weight.

Q What are private clients' return requirements?

They are seeking products at the midpoint, hovering around the 8 percent to maybe 15 percent mark. Secure liability matching income at 4 percent or 5 percent – which is what institutions need – is not really what a private client looks for. Very high risk strategies are sometimes sought-after, but they are not what we think should be offered to a broader market.

Q What types of investments work best for these new investors?

If I look into our own product universe, the share of secondaries and co-investments, rather than fund investments, in, for example, private equity portfolios is higher. The reason for this is quicker deployment and shorter duration – more liquidity being deployed more quickly into investments and coming back more quickly, if needed. Some investments are happening within semi-liquid funds, which have a degree of liquidity built in.

You want the client to have the experience that when they come in, their capital gets invested fairly quickly. That is very different from an institutional investor that can endure long J-curves from both a cashflow as well as from a return perspective. ■

'Refocus the industry's purpose'

If PEI's Changemakers could shake up the private equity industry in one way going forward, what would it be?

"Refocus the industry's purpose. Partnering with companies to propel growth and stakeholder impact is an important opportunity. It's exciting – and I believe the intrinsic value goes far beyond capital gains"

Joseph Rice, co-founder, CD&R

"GPs and LPs need to collaborate to solve the systematic challenges we face. ESG is one of the rare corners of finance where you don't win by going it alone"

Megan Starr, global head of impact, Carlyle

"We would love to see a collective commitment to creating an incredible technology experience for all constituents in this ecosystem, with full digitisation of the value chain to increase efficiency"

Lawrence Calcano, chairman and CEO, iCapital

"Make fundraising more straightforward. If we can make that process more efficient and transparent, that would benefit both LPs and GPs"

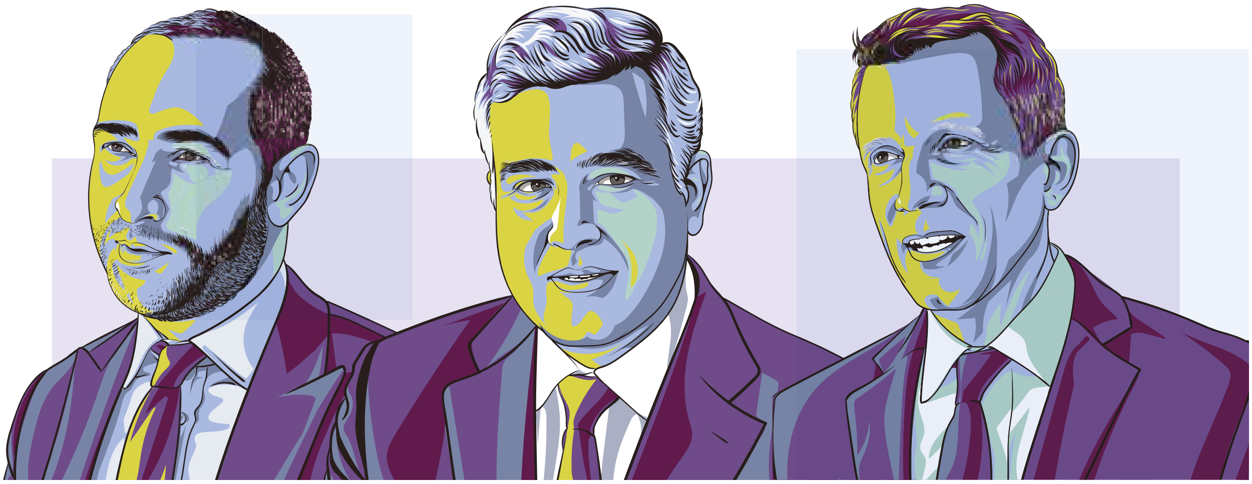
Wol Kolade, managing partner, Livingbridge

"Improve the assessment of returns. Lessen the focus on IRR, which is a flawed metric and can provide the wrong incentives. Let's also isolate investment 'alpha' from market 'beta'"

Pete Stavros, partner and co-head of Americas private equity, KKR

"The PE industry must take the responsibility to steer investment capital to investments benefiting future generations more seriously. Investors will require it and that is where the returns will be"

Jan Ståhlberg, founder and managing partner, Trill Impact



Robert Hamilton Kelly, Ali Raissi and Christian von Schimmelmann

Petershill Partners

The business of buying minority stakes in alternative asset managers isn't new. Affiliated Managers Group, which has an interest in Pantheon and once owned a stake in Baring Private Equity Asia, has been buying interests in investment management firms since the 1990s.

Pennsylvania-based Rosemont Investment Group helped pioneer the strategy, having acquired at least 30 stakes in asset and wealth managers via dedicated funds since 2000.

What Goldman Sachs' Petershill Partners unit has impressed the market – and its LPs – with is the model of buying stakes in alternatives managers via a dedicated fund with clear and innovative exit strategies. The business was established in 2007 and initially focused on acquiring stakes in liquid alternatives firms, including hedge funds.

In 2016 it picked up a minority interest in mid-market focused buyout shop Littlejohn & Co, with stakes in Accel-KKR, Riverstone Holdings, ArcLight Capital Partners and Clearlake Capital to follow. As we approach the end of 2022, Petershill has economic interests in 24 partner firms, including industry giants such as Permira.

Other firms have followed Petershill's model, seeing the attraction of buying into the management fee streams and carried interest of alternative asset managers via a strategy that helps enable succession and expansion.

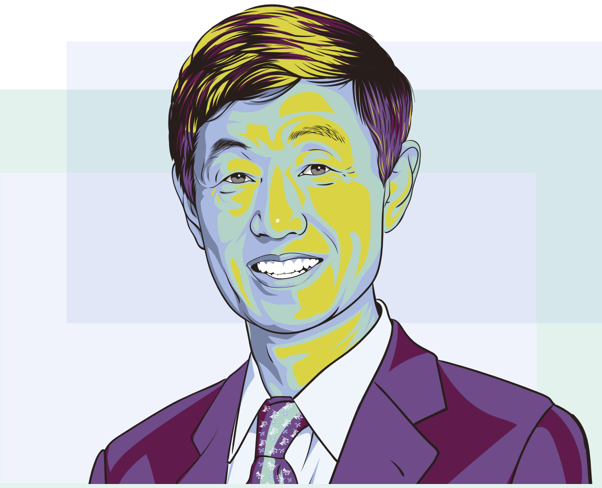
While many firms in this area see their business models as a type of permanent capital, Petershill, led by global co-heads and managing directors Ali Raissi, Robert Hamilton Kelly and Christian von Schimmelmann, has been focused on innovative ways to return capital to LPs from an early stage. In 2019, it securitised a portfolio of GP stakes held in its Petershill II fund, providing liquidity to its investors.

> *"We have seen first-hand the need and the ability for managers to evolve"*
>
> **CHRISTIAN VON SCHIMMELMANN**
> **Petershill Partners**

More innovation came in 2021 when it unveiled plans to float a portfolio of 19 stakes in managers on the London Stock Exchange in a process that would value the portfolio at around $5.5 billion. The listing provided an opportunity for LPs in Petershill's Funds II and III to realise cash returns by reducing their positions at the time of the IPO, and which they could sell down further following a lock-up period – something no GP stakes manager had done until that point.

How would Petershill's leaders like to shake up the industry over the coming years? According to the trio, democratising access to alternatives and having a greater focus on diversity and ESG issues is needed.

"As long-term investors in private equity, we have seen first-hand the need and the ability for managers to evolve in order to generate enduring investment performance," says von Schimmelmann. "We have seen early signs that firms that are at the forefront of that evolution are able to outperform their peers, but we think as an industry we still have a long way to go."



Weijian Shan

PAG

If asked to name the most prominent figure in Asia-Pacific private equity markets, most would point to Weijian Shan, co-founder, executive director and executive chairman of PAG. Shan has more than 28 years of experience in investment management and founded PAG's private equity business in 2010, having previously spent 12 years at TPG Capital (formerly Newbridge). He led a number of landmark transactions for TPG/Newbridge in Asia, including the acquisitions of Korea First Bank and Shenzhen Development Bank in China.

"I originally planned to start my own fund rooted in and committed to Asia, but having subsequently come to know the founders of PAG and their investment platform, I decided instead to partner with them to grow a best-in-class private equity franchise," Shan said in 2010.

PAG has since grown to become one of the largest private markets firms in Asia-Pacific. To date, the firm has more than $50 billion of assets under management, having raised three flagship buyout funds, two growth equity vehicles and three special situations funds, among others.

During his tenure, the Hong Kong-headquartered firm has become closely associated with China, and is considered by many investors to be one of the safest pairs of hands for those seeking exposure to the country. Today, PAG is one of the 100 largest firms in the asset class, and owns the likes of property services giant Cushman & Wakefield.

While Shan went on to become one of the most influential and high-profile figures in Asia-Pacific private equity, his route into the industry has been anything but ordinary. Born during China's cultural revolution, Shan was sent for six years to work in the Gobi Desert. His experiences there are detailed in his 2019 memoir, *Out of the Gobi: My Story of China and America*.

Jan Ståhlberg

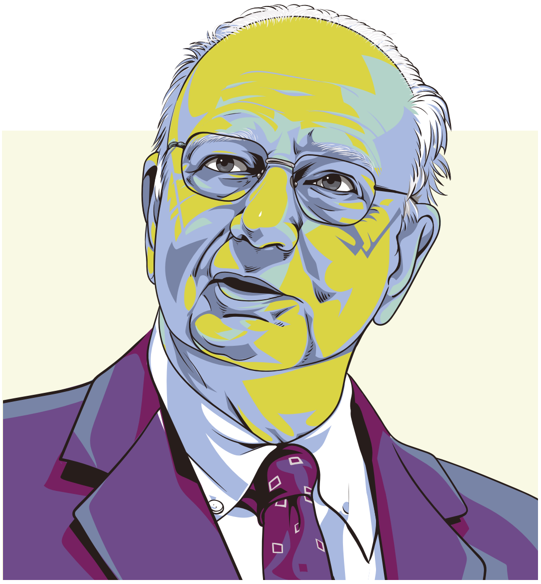
Trill Impact

EQT alumnus Jan Ståhlberg founded Trill Impact in 2019 with the ambition, he told affiliate title *New Private Markets*, of creating "a thought leader and force for positive change through impact investments, enabling like-minded investors to actively contribute to a better world and inspiring others to follow".

Ståhlberg's aim to garner the attention of like-minded investors was vindicated in 2021 when Trill's inaugural impact mid-market buyout fund raised an impressive €900 million. It wasn't just the size of its debut fund that made a splash, however. Under the leadership of its founder and managing partner, Trill is one of a handful of private markets GPs that have linked their fund economics to impact metrics.

While the fund has the 20 percent carried interest entitlement typical of a standard private equity fund, 10 percent of that carried interest could potentially be diverted to charitable organisations in the event that the manager fails to meet certain impact targets. Those targets are specific to each portfolio company and will be agreed at the investment stage.

Trill's launch was considered to be a watershed development for this type of fund mechanism. The practice has been slowly gaining traction among emerging managers and impact specialists. In a sign that it could become more commonplace, it is also being explored by larger firms. In October 2021, for example, EQT announced carried interest would be linked to portfolio-level KPIs for its impact-driven EQT Future fund, which is targeting €4 billion.



Paul Volcker

Formerly at the US Federal Reserve

The chairman of the US Federal Reserve from 1979-87, Paul Volcker enjoyed a reputation as a market reformer. During his tenure as chairman of the Fed, he was widely credited as the driving force in curbing inflation in the US, which fell from around 11 percent in 1979 to below 3 percent in 1983. Following the 2008 financial crisis, he was appointed chair of the President's Economic Recovery Advisory Board, where he made recommendations that would reshape the private equity market.

Volcker argued that speculative investment by banks into the private equity and venture capital spheres contributed in large part to the severity of the financial crisis, and that such investments were not in the best interests of their customers. To address this, the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act included what has come to be known as the 'Volcker Rule'. Implemented in 2015, it limited the amount of money that banks could invest in private equity, in order to reduce what he saw as systemic risk. The rule has since been loosened, including the removal of a 3 percent threshold limitation on holding closed funds, including private equity.

Volcker passed away in December 2019. Reacting to the news, the current chairman of the Fed, Jerome Powell, said that Volcker had left a "lasting legacy" on the US.

David Swensen

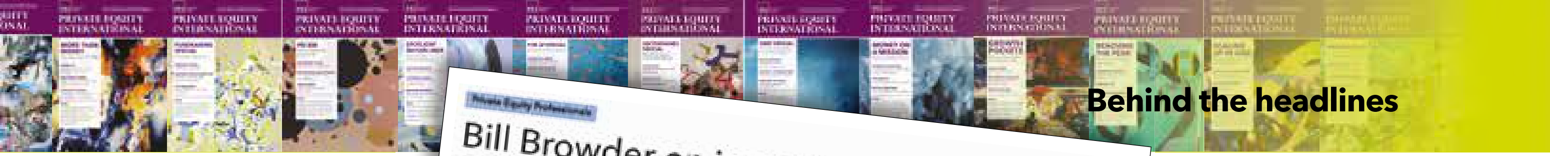
Formerly at Yale University

David Swensen, who sadly passed away in May 2021, was considered a superstar among LPs. The chief investment officer of Yale University's endowment since 1985 until his passing, Swensen oversaw the endowment's significant growth, from around $1.3 billion when he joined to more than $42 billion as of 30 June 2021. He also created what become known as the Yale Model of portfolio management.

The Yale Model, also known as the Endowment Model, as described in Swensen's book *Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment*, places emphasis on eschewing asset classes with low expected returns, such as commodities or fixed-income assets, in favour of alternative assets. This approach has been credited with kick-starting demand among endowments for private equity and venture capital investments, and for driving the industry forward as a whole.

Swensen was also an early mover among endowments in pushing for greater risk assessment and engagement on climate change, asking GPs in 2014 to avoid future investments into companies not making efforts to reduce carbon emissions.

Following his passing, *Private Equity International* reported on the reactions of several industry figures, who attested to his stature in the industry. "David wrote the book on how to run an institutional portfolio," said Christopher Ailman, CIO of California State Teachers' Retirement System, in a statement. "No one can match his legacy, results and contribution to our industry." ■



Private Equity Professionals

Bill Browder on investing in Russia: 'You risk going to jail or dying'

Fund manager-turned-activist Bill Browder made his money investing in public equities in emerging markets; now he has all his capital invested in private equities in developed markets. As a man wanted dead by the Russian establishment, he has an interesting take on investment risk.

Isobel Markham

An emerging markets perspective like no other

It's not often that PEI interviews someone who speaks frankly about living 'in danger'. In 2019, Bill Browder, once the most prolific international investor in Russia, did just that

I started working at *Private Equity International* as a staff writer in September 2014. One of my first tasks was to proofread that year's Operational Excellence special edition. One of the award winners was TPG, for its investment in Russian hypermarket chain Lenta. Having studied Russian at university and spent a year living in Moscow, I was excited to read about what was described in the write-up as a "textbook" deal that created somewhere in the order of 14,000 jobs.

Little did I know then just how rare it was for a big-name Western private equity firm to invest in Russia. In fact, I haven't seen another deal like it since.

Fast forward five years, and my colleague Toby Mitchenall had the opportunity to interview Bill Browder, once the most prolific international investor in Russia through his firm Hermitage Capital Management.

It was just a few weeks after Michael Calvey, founder of one of Russia's most prominent private equity firms, Baring Vostok Capital Partners, and three colleagues had been arrested over a dispute concerning portfolio company Vostochny Bank. Calvey has since been found guilty of embezzlement and received a five-and-a-half-year suspended sentence.

Hit list

This was an interview like no other I had worked on during my time as editor. At the time, Browder was Russian president Vladimir Putin's most wanted political enemy.

He told us he didn't live in fear, but certainly "in danger", and he talked of reducing risk to make it "more difficult for them to kill me". I urge you to dig out the article for the details.

Russia, he told us, is "an uninvestable place", where if you want to survive as an investor, you "basically have to become a criminal" in the West. Otherwise, he said, they'll make up fake crimes about you. "You don't just risk losing your money, you risk going to jail or dying, and I don't think anyone would want to take that risk," he said.

But it was not just what Browder said about Russia that made this interview so fascinating. Here was an investor who had made all his money investing in public equities in emerging markets, but now had all his capital invested in private equities in developed markets. Why?

For starters, he said, when you're assessing an opportunity, forget about investment returns, valuations and all those other indicators predicting future growth, and ask yourself this: is the legal infrastructure in place to make an investment possible?

Rule of law

"Having been a full-on witness to what goes wrong in these places," Browder said, "I've learned that the rule of law, property rights, [and] independent courts are not a useful addition, they are an absolute essential part of any investment case."

You have to be able to assume, he went on, that when you make money, it's yours to keep. Certainly in Russia, but also in many other emerging markets, Browder said that is not necessarily the case.

Most interviewees we sit down with, understandably, want to focus on successes and opportunities. Here was an undiluted voice telling the other side of the story. ■

Isobel Markham is a freelance editor and journalist. She was senior editor, private equity, Americas at PEI Group until 2021

KEYNOTE INTERVIEW

Staying the course



A clear, well-executed strategy that focuses on customer needs can help portfolio companies come out of challenging environments stronger, say senior advisers to CD&R funds Sir Terry Leahy, Jim McNerney and David Taylor

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Q You have led businesses through several market cycles. What challenges and opportunities do testing environments like the one we are experiencing today present?

David Taylor: We are certainly experiencing a difficult environment right now. I have had the opportunity to deal with many of these over the course of my career, including the first contemporary global financial crisis in the late 1980s, the various recessions and dot-com crash in the 1990s, the great recession in the late 2000s and certainly when covid-19 first hit.

These kinds of crises tend to create differentiation within the market and highlight the importance of strategy. For CD&R, that involves remaining focused on consumers' needs and creating opportunities to address those needs.

We believe that sharpening your focus on the core areas that drive performance within a business, supporting your people and helping them have confidence that the outlook on the other side of the crisis will be brighter, makes this possible.

In addition, M&A opportunities can become more available in trying times, as some companies are looking for a way out of a difficult situation. This provides more stable companies with the chance to consolidate and come out of a crisis much better than before.

Q David mentioned his experience with different market cycles. What experiences are you drawing on that have been helpful for the management teams in CD&R's portfolio?

Jim McNerney: The early 1980s is the last time I saw the slow growth, high inflation environment that we're faced with today. I was leading several GE divisions at the time, and reflecting on that experience – which may not be exactly the same as the management teams are facing today, but is close enough – allows us to assess our businesses' current risks and opportunities more clearly. Whether it's a major

Q What do you look for in a portfolio company CEO during these periods?

TL: During challenging economic times, you want a leader, not a manager. The attractiveness of the perfectly process-driven CEO tends to wane when things get tough. We believe what you need is a CEO who can communicate, who people will follow and who is convincing about the short-term sacrifices that need to be made for longer-term gains.

You also need someone who can demonstrate to their team why they need to run twice as hard as they were running yesterday when they already thought they were running about as fast as they could. I believe all these things make a difference in helping a company successfully come out of the other side of a challenging period.

growth programme, restructuring, or finding new leadership, we can bring our lived experience to the discussion and proactively guide management.

Sir Terry Leahy: I believe it is also particularly helpful that CD&R has such deep experience in the hard-hit consumer industries, both financially and from an operating standpoint, with an average of 20-plus years' experience across a range of business models. This insight helps us serve as a sounding board that can test various solutions and encourage the innovation that I believe businesses need to thrive through an economic downturn.

Q What should operating teams and portfolio company management focus on when facing macro-economic headwinds?

DT: We believe that having a clear strategy, setting transparent expectations and supporting people so they can execute against headwinds is essential.

> *"These kinds of crises tend to create differentiation within the market and highlight the importance of strategy"*
>
> **DAVID TAYLOR**

Fear disables, but we believe that confidence and clarity enable organisations to go out and execute a strategy effectively. If you had a strong strategy going in, stay focused on the critical elements, have high expectations and bring the resources to bear to take advantage of any opportunities that may be in front of you.

We believe that companies should not lower their expectations because of what they might have heard in the media about an impending recession or other macro concerns. Look at your industry, identify opportunities, work with your team and then execute well.

JM: In today's environment, we believe that winning companies will do the basics very well. They will manage inflation effectively, make their supply chains more resilient and price new product introductions flawlessly.

If I had to focus on two elements, it would be pricing and productivity. In tougher times, we believe that being able to price effectively is critical and productivity is key. Another important aspect to consider is company leadership and ensuring you have the right team in place to navigate choppy waters.

Q Does the way in which you engage with portfolio companies change during periods of uncertainty?

JM: The frequency of our interactions with portfolio companies doesn't change that much during tough times because we are already close to the ground. A lot of teamwork is established on a routine basis, but the subjects that we deal with may vary as a more challenging macro environment closes in. During turbulent times there may be more focus on the balance sheet and cash, as well as pulling in growth opportunities that we want to invest in.

Q What impact does rising inflation have on your strategy and that of your portfolio companies?

TL: At the business level, I don't think our strategy changes in an inflationary environment, but the guardrails around how you implement it do, and that is what we are attentive to in our portfolio. It is not the case that you stop driving growth programmes or you focus exclusively on productivity programmes and cash management. You still need to consider all of those in balance, but you must be sure to keep your feet underneath you.

DT: You still have to understand what the priorities are for consumers and the businesses that serve them. That includes knowing what they are looking for from you and making sure you deliver that through your products, staff and investments. So, in that sense, things don't change, but tactically you need to alter your approach.

We believe that you need to make sure that you can create new products and occupy new positions in the market that offer genuine value – it is not simply a question of passing on costs to the consumer. Rebuilding your product and service offerings to make sure that they still constitute good value for the consumer and in a way that is still profitable for you as a business, despite the rising costs you might be facing, I believe is paramount.

> *"In today's environment, we believe that winning companies will do the basics very well"*
>
> **JIM MCNERNEY**

Q Can you provide an example of how macro concerns are impacting a business you have invested in and how it is navigating today's environment?

TL: CD&R recently backed UK supermarket chain Morrisons. Like all supermarkets, in the short term, Morrisons faces a challenging time. Customers are worried about rising energy costs and rising prices in their everyday essentials, including food, so they are spending less where they can. There has also been supply chain disruption and labour market shortages in the UK. Morrisons is navigating all these circumstances, and we believe that the business has the experience, leadership and staff to successfully do so.

Historically, people come to supermarkets when they are looking for value, and we believe they come to Morrisons because of its reputation for appealing and affordable products. That is always important, but it is especially important in these challenging times.

The business also has a reputation as a good place to work. It provides training and management support and offers young people the opportunity to start their careers with useful skills. We believe that being an attractive employer is especially helpful when the labour market is tight.

Q What do you view as the most critical operational levers when evaluating a potential investment?

JM: When evaluating a new investment, we believe that finding those places where you have leverage that your competitors do not is crucial. That often comes down to assessing the leadership team, the way the business has allocated capital and the strength of its critical functions.

For example, with logistics, supply chains or customer-facing functions, we believe you need to really dig in and understand where the business currently is and what your investment can do to improve it. You do not want to make an investment where you are not sure that there are operating levers that you can pull that your competitors do not have.

Q What are the advantages for PE-backed private companies in times such as these?

DT: I think the private company environment has many advantages over the public company environment, and that has turned conventional wisdom from 20 and 30 years ago on its head. It is my view that private companies, particularly those led by sponsors such as CD&R, take a longer view, are less hobbled by conventional wisdom, less hierarchical, and they are therefore faster in their decision making. We believe that these are critical attributes to have as we brace for the macro headwinds ahead. ■

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Andrea Peiro
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Former President,
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Former Co-President & COO,
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14
OPERATING PARTNERS AND PRINCIPALS

Anand Shah, M.D.
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Former Deputy Commissioner for Medical and Scientific Affairs, U.S. FDA

40
ADVISORS TO CD&R FUNDS*

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PE's growing pool of LP capital

In the early 2000s, private equity was a niche industry backed by a small group of institutional investors. Roll on two decades and the picture couldn't be more different, writes Nicholas Neveling

In the summer of 1997, Peter Smitham – the chairman of Schroder Ventures (now Permira) – made the groundbreaking announcement that the firm had launched Europe's first-ever $1 billion private equity fund.

The vehicle received half of its commitments from European investors, with the remainder coming from North American institutions – drawn in by a new strategy to invest on a pan-European rather than country-specific basis. Schroder Ventures partner Charles Sherwood told *The Independent* that the new fund would be able to consider "large" deals, using $150 million of equity and $350 million of debt to fund transactions.

Skip forward 25 years and the landscape could not be more different. In June, Permira partnered with Hellman & Friedman to buy US software company Zendesk in a deal that valued the business at $10.2 billion. A month later, reports emerged that Permira had secured €16 billion for its new flagship fund – 16 times bigger than its 1997 landmark vehicle.

Transformational growth

The Permira story serves as a microcosm for the entire private equity industry, which has undergone a transformational period of growth since the turn of the century.

According to *Private Equity International*'s latest Global Investor 100 ranking, the world's 100 largest private equity investors allocated $1.79 trillion to the asset class in 2021 – a sum that would have been unfathomable in the early 2000s.

Private pension funds, public pension funds, insurance companies, and foundations and endowments have all upped their allocations to the asset class in recent years, with the average private equity allocation across all LP types climbing from 8.41 percent in 2017 to 11.16 percent as of 30 June 2022, per *PEI* data.

"When I started working in the industry in the early 2000s, it was really a very small niche asset class," says Dan Aylott, head of European private investments at Cambridge Associates. "But over time, it's become more mainstream and a much more important and prominent part of investor portfolios. Over time, investors have seen the benefit of having allocations to private markets in their portfolios from a performance perspective and also in some cases from a cash generation perspective when portfolios mature."

The shifts in the geographical make-up of the private equity investor base have been similarly striking. Firms raising funds 20 years ago would have sought the bulk of their capital almost exclusively from North American and European institutions, but as private equity's appeal has grown, so has its international reach. North America may still account for the lion's share of allocations, but four of the 10 largest private equity programmes now run out of the Middle East and Asia. The Asia-Pacific and Middle East now also have almost as many LPs ranked in the *PEI* Global Investor 100 as Western Europe, confirming private equity's global status.

$1.79trn

How much the world's 100 biggest private equity investors allocated to the asset class in 2021

Source: Private Equity International

> *"When I started out in the industry, we used to get due diligence packs sent through the post in a brown envelope"*
>
> **DAN AYLOTT**
> **Cambridge Associates**

"Twenty years ago, private markets investors were predominantly based in the US alongside a small group based in Europe. Today that world has become much broader," says senior private markets strategist Jim Strang, who was previously EMEA chairman at Hamilton Lane, and currently serves as chair of HgCapital Trust and as a non-executive director at the Business Growth Fund, besides other PE advisory roles.

"Now there are private equity programmes globally," adds Strang. "The US and Europe have continued to develop, while regions such as the Middle East, Asia and Latin America now all actively invest. The tentacles of private markets have genuinely gone more or less everywhere."

Returns drive expansion and sophistication

The underlying driver of private equity's remarkable upward trajectory has been the risk-adjusted returns the asset class has delivered for investors.

According to research from Cliffwater, private equity allocations by state pension funds delivered net-of-fee annualised returns of 11 percent over the 21-year period to the end of June 2021, outperforming the 6.9 percent annualised return that would have been earned by investing in public equities. This outperformance did not come with more risk, with the annualised standard deviation returns for private equity coming in at 16.1 percent versus 17.1 percent for stocks.

Meanwhile, *PEI*'s annual investor survey, the *LP Perspectives Study*, shows that in each year from 2017, private equity either exceeded or met its benchmark for more than three-quarters of investors.

"The foundations of private markets were laid when there was a shift out of public investing into private investing in search of incremental IRR," says Paul Buckley, managing partner at capital placement business FIRSTavenue. "It started in the US and then spread globally, and what has driven that spread has been the achievement of interesting returns, which have convinced investors."

The increasing flow of capital into the industry in search of these returns has fuelled further momentum, supporting the formation of new managers and a broadening of the private equity product set into areas like co-investment and secondaries.

"As markets develop, they tend to deepen. They deepen in terms of outstanding nominal volumes and in terms of investor participation," Buckley says. "As the number of GPs proliferates, there is a stratification of the market by types of GP and strategy. In the early days, we did simple, lower mid-market buyout funds. Now we have micro-cap funds all the way up to mega-funds.

"Further, private credit and private infrastructure markets have developed. As the volume in the market deepens, there is a development of secondaries markets, and we now see secondaries deepening and stratifying as well, and spreading to new asset classes."

> *"Investors that have been in private equity for many years are graduating to products that are more bespoke to their requirements"*
>
> **KEVIN O'DONNELL**
> **Adams Street Partners**

Adapting to change

As the private equity industry has grown, the relationship between managers and investors has evolved, and GPs have had to adapt their operations to manage more 'hands on' fundraising processes and LP demand for more bespoke private equity exposure.

"If you go back 20 years, raising capital was a relatively simple process," Strang says. "The pool of investors was smaller. As a GP, you didn't have to talk to too many people and there wasn't the same pressure to differentiate and articulate what made you great. The process was far 'lighter touch' and usually left to a senior partner of the fund as opposed to the dedicated IR armies that prevail today.

"Twenty years ago, the cadence of fundraising was slower and the level of interaction in the middle of a fund's life far lower. Nowadays, I would argue that there is no such thing as 'fundraising', it's a perpetual motion of interacting with LPs. The process has evolved a great deal."

The use of technology has played a key role in this reconfiguration of investor and manager interaction, with the use of digital tools especially accelerating through lockdown periods.

"When I started out in the industry," says Aylott, "we used to get due diligence packs sent through the post in a brown envelope. Things have moved on hugely and the use of technology platforms for sharing information between LPs and GPs has revolutionised fundraising. The ability to have conversations with GPs virtually has made the process much more efficient, providing new channels for due diligence and meeting managers."

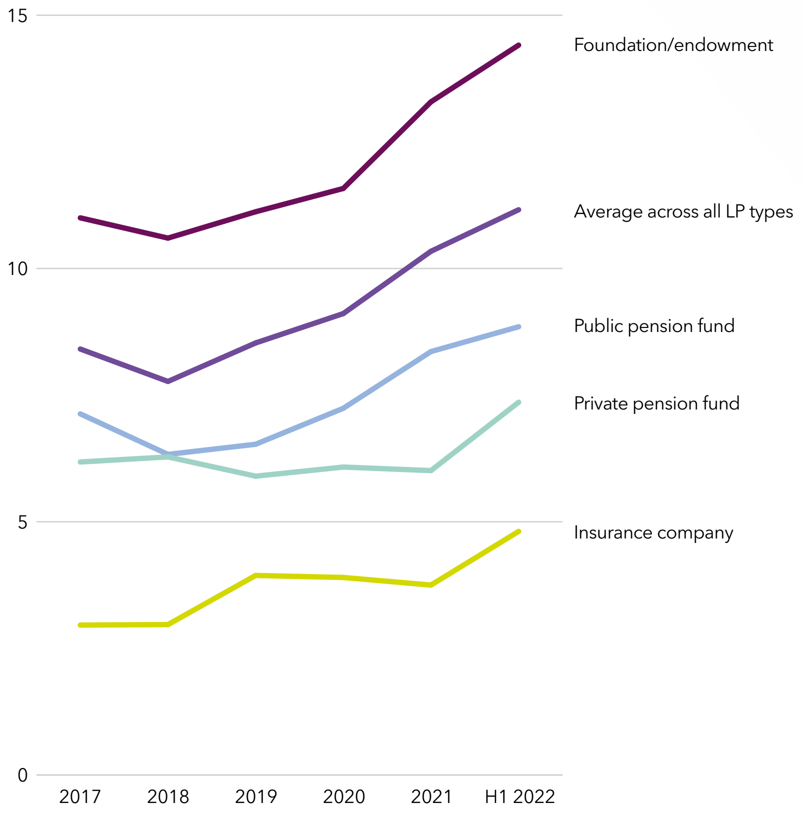
The LP-GP dynamic has also been reshaped by an increasingly sophisticated approach to portfolio construction from LPs. In the 2000s, private equity exposure would have predominantly been through primary buyout funds, but as the asset class has matured and investors have become more familiar with returns profiles, demand for more optionality and control over net returns has accelerated. Appetite for exposure to direct deals, co-investment, secondaries and other adjacent private markets including private debt, infrastructure and real estate has strengthened as a result, especially among experienced investors with mature programmes.

"Investors that have been in private equity for many years are graduating to products that are more bespoke to their requirements," say Kevin O'Donnell, partner and global head of investor relations at Adams Street Partners. "Some will want to increase secondaries exposure for J-curve mitigation. Others will be focused on co-investment as a great way to access private equity at lower fees. Some will hire Adams Street to up weightings to particular stages of venture. Virtually half of the assets we now raise are customised solutions. Every investor is different."

The next phase of PE

So where does private equity go next, and can it sustain the growth and returns it has delivered during the last two decades?

Average private equity allocation by institution type (%)



Source: Private Equity International

There are signs that the industry is now maturing, with *PEI*'s *LP Perspectives Study* showing a trend towards a higher proportion of investors being overallocated. In 2017, for example, only 4 percent of investors said they were overallocated to private equity, with 53 percent underallocated. In the latest *LP Perspectives Study*, published in December 2022, 24 percent of respondents said they were overallocated with just 31 percent underallocated.

"The tentacles of private markets have genuinely gone more or less everywhere"

JIM STRANG

There is also a recognition that the volatile macroeconomic environment will challenge private equity performance in the coming years. Only 25 percent of respondents to the latest study said they expect private equity to exceed its benchmark over the year ahead, down from the 53 percent who reported that private equity had beaten benchmarks over the prior 12 months.

"The tailwinds of falling interest rates and rising asset valuations have accounted for a large portion of recent attractive private equity market returns," says Stan Miranda, founder and chairman of Partners Capital. "We are now looking at a period of higher and rising interest rates and no guaranty of multiple expansion from rising valuations related to public equity comparisons."

Despite the current challenges facing the industry, however, the long-term outlook remains broadly positive, and there still appears to be plenty of room for private equity to grow. The asset class is also just starting to unlock opportunities among the high-net-worth individual and retail investor base, which has the potential to drive another transformational wave of growth in AUM.

"Private client appetite has grown substantially over the last five years," says Jason Proctor, founder and managing director of Truffle Private Markets. "Until recently, this appeared to be considered by GPs as a 'nice to have' rather than a significant component of their LP base. We are now in a market where larger GPs are often creating vehicles specifically targeting private clients and are proactively selling to that channel, while others use third-party distribution platforms to reach a private client audience."

For Adams Street's O'Donnell, the fundamentals that have driven private equity's performance in the past will remain at the centre of future success: "As much as the industry has evolved, good underwriting and selection remain paramount, whether you are on a primary team selecting managers or a co-investment team selecting deals.

"Economic downturns often clarify the delineation between the top and the bottom managers. But we have seen – time and time again in private equity – that if you have a track record, the repeatability of that is pretty pronounced." ■

KEYNOTE INTERVIEW

Value creation becomes a top priority

Data analytics, ESG and take-privates will all feature heavily as private equity firms seek to create value in the years ahead, say Glenn Mincey and Carole Streicher of KPMG

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KPMG

Q In this economic environment, creating value in the portfolio may be more important than ever. How should PE firms approach this?

Carole Streicher: Being fully focused on value creation is a priority for private equity firms right now. In the current economic environment, and with fewer platform deals on the horizon, firms must shift their energy to look at opportunities to deliver more EBITDA improvements thoughtfully and quickly within their existing portfolios.

Our work with private equity clients tackling this challenge shows that the most successful companies have a strategic and detailed approach to using data and analytics to understand and evaluate potential areas of improvement within portfolio companies. In many cases, private equity firms do not yet have robust data and analytics to drive actionable insights. For example, they are collating data from disparate sources without a single source of truth, and many are not yet using AI-based predictive analytics to conduct analyses. This next year is going to require much greater focus on analytics to understand which levers are best positioned to create value within their portfolio companies.

Private equity firms should also be asking management teams in their portfolios about the key performance indicators they are tracking to understand the health of the business, from top-line growth metrics to the assessed value of cost take-outs.

One area we frequently see room for improvement in is roll-up strategies. When portfolio companies have executed roll-up strategies, it is worth exploring whether they properly integrated those businesses and where there is room for improvement, particularly in areas such as pricing, supply chain and their human capital strategies.

With the potential slowdown in deal volume, I expect we will also see longer hold periods in private equity, which again requires owners to really focus on medium- and longer-term growth strategies and optimisation. Given those longer hold periods, we might see more minority deals, which means private equity firms need to think about where the value might lie in such deals and whether those could allow them to bring additional capital into businesses to help drive growth.

Q How does ESG factor into PE firms' portfolio management efforts?

Glenn Mincey: With all the headwinds around higher interest rates and lending restrictions, an industry that thrives on leverage for returns will inevitably be impacted. Private equity firms are therefore actively looking for additional levers they can apply, which means value creation and ESG are key considerations right now.

Many point to the pandemic and the societal issues of the last two years as having accelerated the focus on ESG, but this is something private equity has been focused on for some time. Whereas 18 months ago ESG was a red flag risk management exercise, now it is a focus at all stages of the deal process and is seen as a means of creating value.

There is a clear belief that sustainable companies are more stable companies, and consumers in all industries seek out strong ESG criteria. Today, private equity due diligence is much more focused on ESG across the whole transaction life cycle and there is an understanding that an opportunity to make a company greener will drive better multiples on exit.

Data is also crucial when it comes to ESG. We have had clients describe ESG as a full contact sport: investors have different questionnaires, portfolio companies collect different data, in different forms and with differing levels of reliability. And everyone wants access to data immediately. There is a crucial need for quantitative data on climate risks and opportunities, as well as a uniform standard. The funds that can get this right will likely have a leg up on the competition moving forward.

Finally, reporting and regulatory requirements are becoming increasingly complex, so companies need to make sure their reporting and compliance processes are robust in order to both avoid unexpected pitfalls and to attract potential buyers.

Q What talent or skills do PE firms need to successfully navigate the next two years and drive long-term value in their portfolios?

CS: First, we are seeing a lot of private equity firms doubling down on building out their data and analytics capabilities to support value creation and performance improvement. That is about getting the data from the portfolio as well as creating a team of data scientists capable of analysing that information and drawing out valuable insights.

Second, GPs are now making significant investments in high-level ESG talent, creating senior positions to help the fund and its portfolio companies execute on their ESG agenda.

Third, we anticipate an increase in carve-outs in the market in 2023, as more corporates look to divest non-core assets. Private equity firms need to make sure they are prepared to successfully execute on those deals, which are different from typical M&A in that they need to stand up a new business that comes with a lot less support around the back office for functions such as HR and IT. Making sure firms have those skills within their existing talent structure to help work through those challenges will be important.

Fourth, if a private equity firm has take-privates in its strategy, then it needs to make sure it has talent in-house that understands how to take a business out of public ownership and create value by doing so. Those skills are not easy to come by, and in the current tight labour market, sourcing the talent necessary to drive long-term value in portfolios should be a key consideration.

Q What is the outlook for PE firms investing over the next year?

CS: The deal market may be slowing, but it's not stopping. It's important to put the current slowdown into context – deal activity is down from last year but 2021 was a record year. We also need to look at the amount of dry powder out there, which stood at about $1.2 trillion for private equity as of 30 June, per PitchBook data.

Clearly the headwinds of inflation, rising interest rates and expectations of an economic slowdown are a concern, but there is a lot of capital to put to work and we don't expect private equity firms to sit on the side lines.

However, the current slowdown gives dealmakers an opportunity to be more judicious. Firms can undertake more robust due diligence as the investment thesis comes under greater scrutiny. Greater confidence in a deal and focus on driving value quickly will ultimately accelerate returns for sponsors. Assets purchased in recessionary times often have returns multiples higher than normal market conditions.

I'd also note that not all sectors are going to be impacted in the same way. There are some industries that we anticipate will be more active, such as healthcare, and particularly healthcare IT. Utilities is another sector where we expect to see more deals.

GM: We are also seeing significant levels of activity around the energy transition. Some forecasters have put the price tag for the global transition to a low-carbon economy at $100 trillion over the next 30 years. The clear winner by volume is renewable energy, but energy storage and transport are areas of tremendous growth. Energy storage is an area where there is a clear need for further development given the intermittent nature in production of wind and solar power. The industry has a particular need to find ways to store the energy (and store it for a longer time) in order to transition to cleaner, more affordable, reliable energy systems. In addition, we also see private equity looking at tangential sub-sectors, with cleantech, waste management and transport being additional focus areas.

"This next year is going to require much greater focus on analytics to understand which levers are best positioned to create value"

CAROLE STREICHER

"There is a clear belief that sustainable companies are more stable companies, and consumers in all industries seek out strong ESG criteria"

GLENN MINCEY

Q As PE funds look to maximise portfolio value, what role will take-private deals play?

CS: It will be interesting to see what happens next with take-privates, following a few years of healthy activity. In 2021 there were 46 take-privates in the US with a combined value of $118 billion, while in 2022, through Q3, there were 35 deals valued at around $113 billion, according to PitchBook data.

As we look ahead to 2023, we will likely be in a scenario that is more robust for take-privates. Given what is happening in equity markets, many assets could effectively be on sale, trading at a lower price. The technology, media and telecoms sector in particular has been hit hard in terms of public market valuations, so that is an area where we might see more take-privates.

We collaborate with our private equity clients to evaluate and pursue take-private opportunities. With rigour behind value creation, these businesses can be sold for a strong return a few years later. The key is to keep an eye on potential assets to find the right time and then to have a playbook ready to drive value creation and execute quickly to maximise returns. Public company carve-outs (in addition to take-privates) accelerate in these market conditions and also represent a significant opportunity for the PE market over the next six to 18 months.

GM: When it comes to take-privates involving 'brown' assets, you will often find concerns in the media that larger strategics and corporates are offloading these assets to private equity funds, which have less of a duty to provide public disclosure and may be perceived to continue with business as usual. However, fossil fuels are going to be vital to the world economy for decades to come. For now, there is an opportunity for private equity to use innovation and solid management techniques to make 'brown' companies greener and really do some good. ■

Glenn Mincey is global and US head of private equity at KPMG and Carole Streicher is US deal advisory and strategy leader at KPMG US and Americas regional head of deal advisory

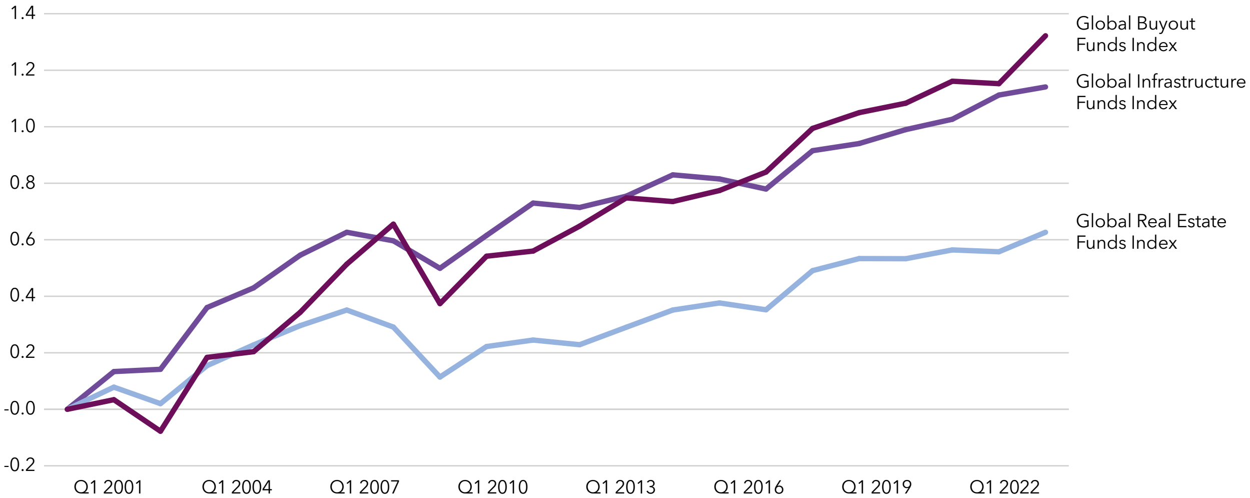
A question of performance

Private equity has probably outperformed public equities over the past 21 years but the uncertainty around performance and how it is measured remains a sticking point for the industry, writes Rod James

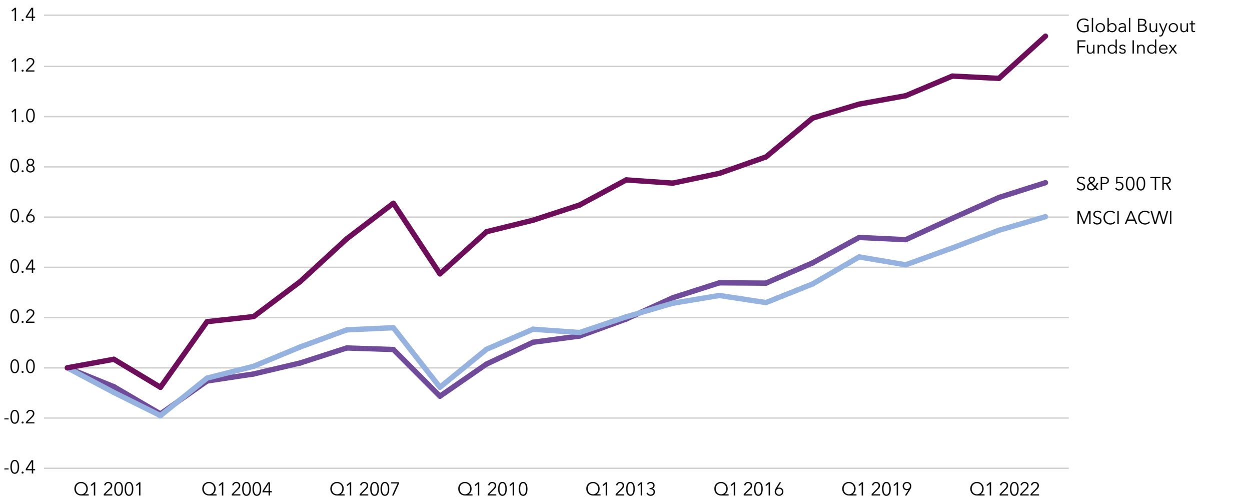
Does private equity outperform public markets by enough to justify the fees? The rationale for investing in the asset class may come down to that single question. A definitive answer has proved difficult to come by for several reasons, including the vagaries of PE performance metrics and questions over what should and shouldn't be included in the analysis.

For its 21st Anniversary edition, *Private Equity International* asked CEPRES to run the numbers on PE's performance over the last 21 years, and its findings should please our readers. According to analysis from the private markets data provider, the CEPRES global buyout funds index has outperformed the S&P 500 and the MSCI ACWI – which tracks a broad selection of large- and mid-cap stocks from 47 markets – every quarter in every year since 2001.

Performance comparison across CEPRES private market indexes



Performance comparison between CEPRES Global Buyout Funds Index, MSCI ACWI and S&P 500



Source: CEPRES

The returns produced by buyout funds have, however, been more volatile than their public market equivalents, per the CEPRES analysis, which is perhaps surprising given that many LPs often cite a perceived lack of volatility as a reason for investing in the asset class. One of the strongest periods for buyout funds over the past 21 years was 2003 to 2007, with the largest single-month increase, 11.08 percent, coming in April 2003.

CEPRES, which draws on a data set spanning around 11,000 funds and more than 107,000 PE-backed companies, also compared the performance of buyout funds with other alternative asset classes. It found that while buyouts consistently outperformed its index of real estate funds – apart from a brief period in 2004 – there was a solid stretch after the global financial crisis where private infrastructure outperformed buyouts. Infrastructure has produced the least volatile returns and clearly outperformed public equities benchmarks as well.

"This time-series variation in returns varies broadly across PE fund types [buyout, real estate and infrastructure] and is highly cyclical," says Alka Banerjee, global head of product, market data at CEPRES. "Therefore, it appears that cyclicality in PE returns exists, and the returns cycles of the different PE fund types are not highly correlated. Accordingly, a diversified strategy across the various types of PE funds may be a beneficial approach to take for investors and advisers alike."

As mentioned, there will never be universal agreement on the question of performance. In 2020, Ludovic Phalippou, professor of financial economics at the University of Oxford's Saïd Business School, published an incendiary paper arguing that, net of fees, private equity funds have returned about the same as public equities since 2006.

He went on to describe private equity as one of the largest wealth transfers in modern history, "from a few hundred million pension scheme members to a few thousand people" in the industry. Blackstone, KKR, Apollo and Carlyle were compelled to issue rebuttals.

There were questions raised about Phalippou's methodology, notably how he analysed buyout, real estate and infrastructure funds as if they have the same characteristics. In truth, an LP that invests in real assets might well appreciate steady income and lower volatility more than pure returns.

Still, the fact that multiple people can study performance data and come to totally different conclusions is a problem, particularly as the industry tries to demonstrate it is safe for retail investors to back private markets.

Murky metrics

Internal rate of return has always been an imperfect metric. As *PEI* noted in 2018, the way it is calculated places undue weight on distributions that come early in a fund's cycle, allowing funds to build up impressive rates of return sometimes, some claim, by exiting investments before they should.

This problem was made worse by now ubiquitous subscription credit lines, which, while useful for bridging capital calls, tend to boost a fund's IRR by reducing the length of time that LPs' capital is deployed. As cited by Hossein Kazemi of the Isenberg School of Management at the University of Massachusetts Amherst, in an article published by the CAIA Association in 2020, two recent studies suggest the boost from subscription lines can be as high as 6 percent.

"Anyone can generate a 1,000 percent IRR [just] by calling the capital a day before it's distributed back to the LPs"

PE HEAD AT A PENSION FUND

Over the past 18 months there has been notable growth in the NAV loan market; these are loans taken out by GPs and secured against all or part of their portfolios. These loans can be used to cure covenant breaches, make add-on acquisitions and increasingly to fund distributions to investors, many of which are overallocated and reluctant to commit to a new fund until they receive something back from their existing investments.

As *PEI* noted in February, these loans enhance the IRR and the distribution to paid-in of funds, which may already be experiencing a boost from a subscription credit line, making it more difficult again for LPs to know whether performance figures are attributable to performance or leverage.

"It places even more importance on MOIC [multiple of invested capital] as a way to track overall fund performance, if the IRRs become less and less meaningful," a pension fund PE head told *PEI*. "Anyone can generate a 1,000 percent IRR [just] by calling the capital a day before it's distributed back to the LPs."

In Phalippou's words: "While the PE industry can play a positive role for society, it is unlikely to be sustainable if it continues to allow some participants to present arguably window-dressed performance information and incomplete fee information."

Calls for greater transparency around fund performance data are not new. Indeed, *PEI* explored the issue in its first cover story in 2001. "To simply throw an IRR at investors without telling them how it has been worked out is completely meaningless," Ivan Vercoutère, managing partner of Swiss fund of funds manager LGT Capital Partners, told *PEI* at the time. "There are too many different ways of calculating it."

As *PEI* eases into its third decade, the private equity performance debate looks set to roll on as the need for greater transparency becomes ever more crucial. ■

PE's regulatory 'punctuation marks'

Since the GFC, the industry has found itself the subject of increasing regulatory scrutiny, which has in turn helped shape the story of the asset class. Claire Coe Smith reports

The ever-increasing scale of assets under management in private equity has come with greater regulatory oversight and a fast-growing compliance burden. In 21 years, private equity has gone from an asset class largely misunderstood by overseers to one firmly in their sights, with the Alternative Investment Fund Managers Directive in Europe and the Dodd-Frank Act in the US as seminal pieces of legislation that changed the face of the market.

"The regulatory changes of the past two decades stand out more as punctuation marks in a broader story," says Robert Sutton, a partner in the private funds group at Proskauer. "The larger the industry gets, the more it impacts society, the more different stakeholders in society have views on how it should be conducted and then the more it is subject to regulation.

"The Securities and Exchange Commission, as the primary US regulator, started to pay more attention to private fund managers back in the early 2000s, and at that point their primary focus was on hedge funds. In 2004, they were of the view that private equity and venture capital fund managers were not perceived to pose significant risks."

The arrival of AIFMD

In the UK, the Financial Services Authority – which has since been replaced by the Financial Conduct Authority and the Prudential Regulatory Authority – consolidated the responsibilities of several predecessor regulators under one roof in December 2001 and began regulating all UK private equity firms for the first time. But it was not until the arrival of AIFMD as the pivotal piece of European regulation that the industry was really subject to rules specifically drafted with private equity in mind.

AIFMD was borne out of the global financial crisis and was part of a wider regulatory effort to increase oversight of private funds, which had by that point become significant actors in the European financial system, managing large quantities of assets. First coming into force in 2011, EU member states were required to write the directive into national law by 2013, with some providing a one-year transition period before managers became subject to its requirements in 2014.

> *The regulatory changes of the past two decades stand out more as punctuation marks in a broader story"*
>
> **ROBERT SUTTON**
> **Proskauer**

Tim Lewis, head of financial services and markets at Travers Smith, says: "AIFMD was the first piece of pan-European regulation that focused on private equity and hedge fund managers. It allowed the larger funds to market on a cross-border basis for the first time using AIFMD passporting, creating more of a single market in the EU for at least the bigger private equity funds.

"One of the drivers for AIFMD was the desire to create a single European market for institutional investor funds to match the existing UCITS market for retail funds, which policymakers regarded as a great success. Another was the desire to improve investor protection following the activities of Bernard Madoff, the American hedge fund manager who orchestrated the largest Ponzi scheme in history and defrauded investors of billions. It was the perception that Europe needed more laws for private funds as a result of that which led to the introduction of a single market across Europe."

> *"People were concerned that the regulatory compliance burden on private fund managers would be too heavy to operate efficiently in Europe"*
>
> **PATRICIA VOLHARD**
> **Debevoise & Plimpton**

While AIFMD represented a harmonisation of rules in Europe, it affected the private equity industry globally, says Owen Lysak, a partner at Simpson Thacher & Bartlett, where he leads the European financial services and funds regulatory practice. This was because "it introduced marketing rules that applied no matter where you were in the world when you were talking to EU LPs", Lysak explains.

In the years that have followed, many of the largest US fund managers have moved to set up EU-based funds. John Verwey, a partner in Proskauer's private funds group, says: "Following AIFMD, non-EU fund sponsors found that they were effectively shut out from marketing their funds in some EU member states owing to how these member states had implemented AIFMD into their domestic regulatory regimes.

"This led such non-EU sponsors to establish EU funds with EU fund managers, predominantly out of Luxembourg, and with these EU fund managers either delegating portfolio management to the non-EU fund sponsor or receiving advisory services from the non-EU sponsor. This arrangement allowed the funds to be marketed in all EU member states under the AIFMD passport. With this development, Luxembourg became – particularly post-Brexit – the hub for private equity in Europe as people moved to set up vehicles there to get access to the whole European market."

Patricia Volhard, a partner at Debevoise & Plimpton, says the upheaval wrought by the regulation was significant for private equity, but nevertheless proved to be short-lived. She notes that AIFMD was a significant change that caused uneasiness in the market at the time, but the industry quickly adapted. "If you listened to the initial reaction, people were concerned that the regulatory compliance burden on private fund managers would be too heavy to operate efficiently in Europe, and that this would have a negative impact on investments into Europe.

"All of that didn't happen, at least not as dramatically as envisaged by some, and the regulation has proven to be manageable in the end. However, it has [clearly become] more difficult for European investors to get access to non-EU funds due to the marketing restrictions imposed by AIFMD."

Dealing with Dodd-Frank

Running alongside AIFMD implementation in Europe was the arrival of the Dodd-Frank Act in the US – a similarly substantive piece of post-crisis legislation that required private funds to register with the SEC for the first time.

"The Dodd-Frank Act resulted in two actions from a regulatory perspective that really transformed the regulation of private equity," says David Blass, a partner in Simpson Thacher's investment funds practice. "First, it brought the asset class very clearly into the oversight powers of the SEC, and then that was followed by fairly aggressive enforcement action by the SEC in the 2013/2014 timeframe.

"During that period, the SEC pursued enforcement action against many of the private equity fund managers of significance, with the pivotal themes being around the clarity of disclosures

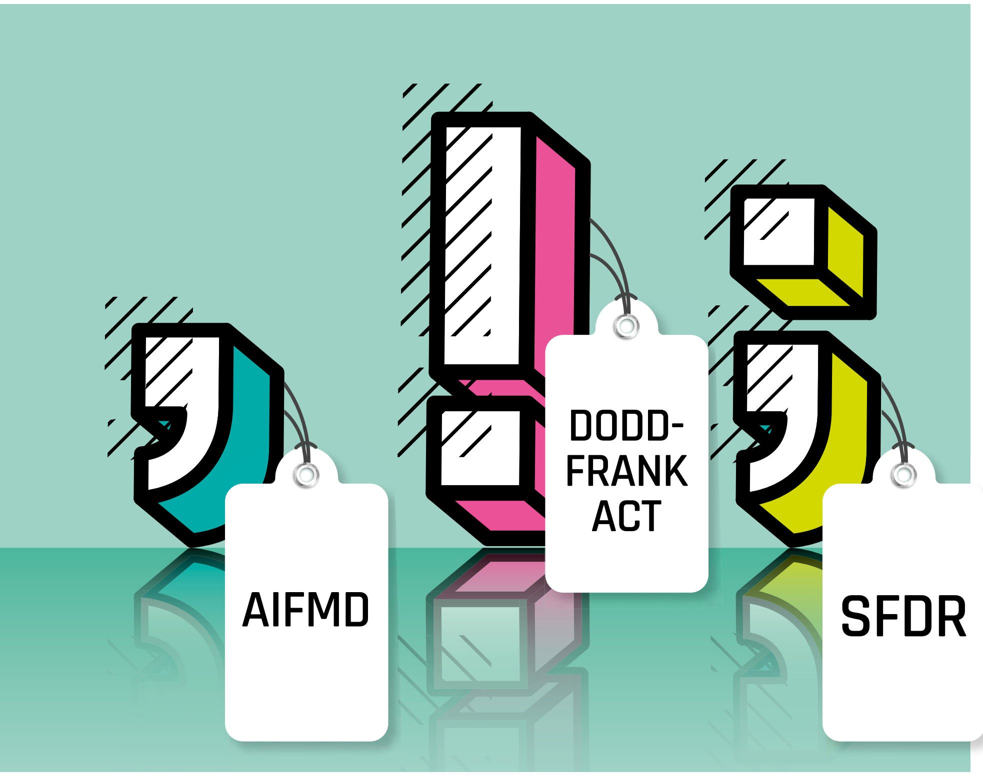
of conflicts of interest and the clarity of disclosures around expenses and fund reimbursements. The combination of all of those actions really transformed the approach to the regulation of private equity fund managers for the long term."

The Volcker Rule that was included in the Dodd-Frank Act was in many ways just as transformative in its impact, prohibiting banks from engaging in proprietary trading and from acquiring or retaining ownership interests in private equity funds. That effectively forced banks to spin out their private equity funds, leading to a flurry of new fund launches and a dissemination of private equity talent into a next generation of market players.

The regulation keeps coming

In the past five years, the pace of regulatory change has continued unabated on both sides of the Atlantic, as regulators continue to tighten their grip on the private equity asset class.

The impact of Brexit cannot be overlooked. "Since then, firms have really been developing workarounds to



address the political fragmentation of the market in Europe," says Lewis. "It means the UK has been taken off the table for many US managers as a potential location for a European fund, for the sole reason that if you are not in the EU you have to deal with all the barriers to access that are put up around it.

"There hasn't been a huge departure of personnel from London, as was feared, and in fact there is still a lot of growth in London among private equity firms. But there has been a growth in headcount and expertise in other jurisdictions in the EU that wasn't really there a decade ago."

> *"SFDR has really moved us into a new world in terms of how people are describing and positioning themselves from an ESG perspective"*
>
> **OWEN LYSAK**
> **Simpson Thacher & Bartlett**

Most recently has come the advent of the Sustainable Finance Disclosure Regulation, a seminal piece of legislation that has seen the EU take the lead in global efforts to avoid greenwashing in the marketing of private funds.

"What is amazing about SFDR is the huge amount of time already spent on it when we have not yet got to the hard stuff, which is the ongoing disclosures," says Lysak. "Fund managers have been struggling with the labelling aspects of SFDR and how to categorise their funds. The focus from European investors as to what category under SFDR a fund is and whether they will commit money on that basis is so significant that even managers outside the EU are now voluntarily categorising themselves and complying because that is what European LPs are asking for.

"There is now potentially a UK version of the regulation coming forward, and the SEC has brought forward proposals that are broadly similar in being product category inspired. SFDR has really moved us into a new world in terms of how people are describing and positioning themselves from an ESG perspective, and that's creating a lot of tension in the market."

In the US, the SEC's latest proposals to enhance private fund investor protections go much further in their efforts to dictate the way in which private equity firms can behave. Marc Ponchione, partner in the investment management group at Debevoise, says: "The next phase is the SEC in February proposed a new set of regulations specifically applicable to private fund managers that would again reshape the industry in ways we have not seen before.

"This new phase of regulation would effectively result in the SEC putting its thumb on the scales of commercial negotiations between sophisticated private parties, because it will require private fund sponsors to use certain terms and refrain from using other terms that have until now been subject only to bilateral negotiations between the parties. That is a pretty drastic development, and many are questioning whether the SEC has the authority to do it."

The new rules would prohibit various economic arrangements that have become market standard, including certain fees and expenses and some preferential side letter terms.

"We expect the proposals to go through with most of these problematic aspects intact," says Ponchione, "and they will have a material effect on the processes by which investors negotiate with private fund sponsors, and will increase the cost of compliance and insurance, possibly to such an extent so as to price small and emerging managers out of the markets."

Private equity has come from the outskirts of regulatory attention two decades ago to now find itself in the eye of the storm. ■

On the minds of the OpEx Awards judges

Three long-time members of the judging panel share their views on the key elements that contribute to operational excellence today and what those elements might look like tomorrow

For over a decade, *Private Equity International's* Operational Excellence Awards have celebrated outstanding examples of value creation across a range of geographies and sectors. We asked three long-serving members of the judging panel to share the insights they have gleaned from poring over these case studies, and to give their take on the continued evolution of managers' value-creation strategies. ■

Q What are the most significant ways in which the private equity value-creation playbook has evolved in the past 21 years?

Veronique Lafon-Vinais: We have seen in the past 21 years an extremely favourable environment for the PE industry. Fast technology innovation has created many new investment opportunities, and the increased adoption of technology and data analytics has improved operating efficiencies. The long period of low interest rates has allowed market participants to use leverage very effectively and to benefit from flows of capital looking to improve yields by investing in alternatives. This period is now ending, so the ability of major players to effectively improve operating efficiency will be more important than ever.

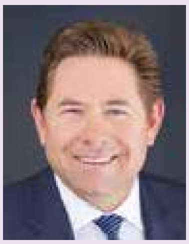
Joncarlo Mark: There has been a massive movement towards the use of internal and external resources to assist portfolio companies and their management teams with operational improvements. This has been driven by the need to create value beyond simply 'buy low, use leverage and exit with a higher sale multiple'. PE firms have developed entire teams that help in a wide range of portfolio company functions. In addition to traditional areas of support, newer areas of focus include helping companies develop more effective HR functions and assisting companies with digital transformation.

Operating teams' level of importance and compensation has also evolved. Instead of merely boasting retired executives as operating advisers, many operating professionals are full-time members of staff, with carry granted to them across a PE firm's funds.

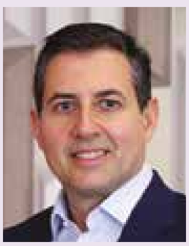
Antoon Schneider: As private equity firms have become more interventionist post-acquisition, they have broadened the value-creation playbook to include topics such as digital transformation and artificial intelligence. Leading firms are also focusing on building capabilities in these and other areas, rather than only pursuing one-off benefits.

Our panel

Veronique Lafon-Vinais
Associate professor of business education in the School of Business and Management at Hong Kong University of Science and Technology



Joncarlo Mark
Founder of Upwelling Capital Group



Antoon Schneider
Managing director and senior partner at Boston Consulting Group

Q Have you seen any changes in LP attitudes towards managers' value-creation strategies over the same period?

VLF: As previously mentioned, the importance of technology to value creation cannot be underestimated. The ability to scale businesses with thoughtful acquisitions has also been a recurrent theme of successful value creation in the cases I have looked at in *PEI*'s Operational Excellence Awards. One clear trend has been the sustainability theme, which was virtually non-existent when I started to participate in this exercise and is now one of the criteria we consider in our evaluations, as investors now have a growing focus on ESG.

JM: LPs expect GPs to implement operational support, particularly in light of the higher purchase multiples evident across the market. GPs are also quick to highlight their 'unique' operating resources, so LPs expect to see this function with their GPs. One key development in the industry is the increase of buy-and-build strategies, which are the norm today. Although pure organic growth remains important, leveraging a platform with subsequent acquisitions allows managers to 'buy down' their purchase multiples while quickly adding scale. When doing so, it is important for PE firms to help their management teams integrate the newly acquired businesses to mitigate risk.

AS: LPs have become more discriminating and now analyse value creation in greater detail, differentiating between the value creation from industry tailwinds and that from portfolio companies' outperformance versus their peers. They also look for evidence that the private equity owner initiated or supported this, and that it was not all left to management alone.

Q What do you think operational excellence might look like in 21 years' time?

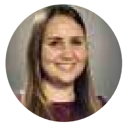
VLF: I expect we will see increased adoption of data analytics and tech to maximise efficiency. It will be hard to succeed without excellent human resources management as the demands of Gen Z are very different from previous cohorts and the ability of companies' management to motivate and leverage talent will be determinant, in my view.

JM: If you believe that PE firms will continue to scale, they might look even more like corporate conglomerates in the future. Operational excellence will be important in allowing larger firms to create value within their portfolio companies, particularly given the potential challenges that may arise as PE firms become 'super scaled'. If they lose their nimbleness and ability to deliver returns, I think we will see PE firms spinning off their operating teams. The question is whether operational professionals will continue to grow in importance to the point where they run PE firms, which increasingly rely on such professionals as they transform into massive, multi-faceted publicly traded operating businesses.

AS: Private equity firms will continue with much of what they are currently doing, but they will have to be even more rigorous and systematic by actively pushing the value-creation agenda in each and every portfolio company – which today is often not the case. They will continue to broaden their horizons as business practices and technology evolve, and increasingly also include 'softer' topics – around ways of working, culture and top team dynamics, for example – to boost the performance of management teams. ■


The changing relationship between wealth and private equity

In this deep dive, PEI examines how private equity is bolstering access to one of its most lucrative and fastest growing sources of LP capital



Helen de Beer

Private equity lowers its drawbridge

In our first deep dive into the democratisation of the asset class, the PEI team learned exactly what has driven this trend – and how much work still needs to be done

The democratisation of PE has been a hot topic for some time. Regular conference attendees can attest to the fact that, more often than not, a panel on the subject will be found on the agenda.

In October last year, Stephanie Drescher, chief client and product development officer at Apollo, said the firm was "turbocharging its commitment to the global wealth channel". Less than 12 months later, Verdun Perry, senior managing director and global head of Blackstone Strategic Partners, said at IPEM 2022 in Cannes – where the panel on retail investing was so popular that there weren't enough seats available for all attendees – that democratisation was not a matter of if, but when.

With all this in mind, the *Private Equity International* team delved into its first ever long-form exploration of the private wealth opportunity in February 2022. We quickly realised that the project was a far bigger undertaking than we had anticipated. The areas we covered ranged from how technology platforms are being used to bridge the divide between sponsors and wealthy individuals, to how fees and returns can be major hurdles for retail investors looking to tap PE for the first time. We were forced to be selective, but as the subject gains more interest and grows in complexity, there will certainly be much more to say on it.

Inherent obstacles

Until as recently as a few years ago, private equity managers largely ignored retail investors. The commitments they are able to offer are relatively small – starting from around $50,000, compared with the millions commonly contributed by institutional players – while the additional admin required to chase capital from multiple investors of this size was considered more trouble than it was worth. What changed?

First, a small cadre of tech-enabled fundraising platforms began to pop up. "When you are having a high volume of low-ticket investors, it's almost like the micropayments of the private markets," Henry Reynolds, chief operating officer at Bite Investments, told *PEI* as part of our deep dive. "When you're going through that, you do need the technology to drive the efficiencies."

Second, major players found a way to contend with one of retail investors' biggest concerns: a lack of liquidity. "We listened to the market… Illiquidity was one of the main concerns left standing between individual investors and allocations to private equity," said founder and chief executive of Moonfare, Steffen Pauls, in 2021 when the firm signed an agreement with Lexington Partners that would make the secondaries buyer its chosen liquidity provider. It's a sort of reverse catch-22: when the industry makes more effort to appeal to individuals, individuals become more appealing to the industry.

Educating the masses

Yet there are a number of barriers still standing in individuals' way. Education, for one, remains a concern for a lot of market participants. As Sofie Kulp-Tåg, senior investment manager at Skandia Mutual Life Insurance Company, told *PEI* in March: "It's a big risk… You really need to make sure that investors understand the asset class and how long you have to stay in the game."

The transition isn't complete, then, but it's undoubtedly underway. Blackstone, for example, doubled the number of staff in its European private wealth unit in the six months to March. Individuals are no longer the unattractive counterparty they once were, and with a growing number of LPs struggling with the denominator effect and overallocation to the asset class, this can only be a good thing. In the months and years to come, readers can certainly expect more reporting on the topic in the pages of *PEI*. ■

Helen de Beer is editor of Private Equity International at PEI Group