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LP RELATIONS

IR imperatives

Because an up-to-scratch investor relations programme is no longer just optional for private equity firms, general partners are working hard to improve reporting systems and communication channels. One key message from limited partners back to managers is this: do professionalise, but keep it personal when dealing with clients. By Philip Borel.

Asked to comment about how private equity managers manage their relationships with clients, limited partners tend to agree on a fundamental trend: general partners, by and large, are getting better at it.

It's a case of needs must, investors continue: general partners are putting more effort, time and resources into their firm's investor relations (IR) functions because they have to. The upgrades have been required because enough funds' investors have grown tired of being expected to live with managers taking a cavalier approach to performance reporting, fund marketing and communication in general.

To be sure, at a time when many of the world's investing institutions have more appetite for private equity as an asset class than ever before, competence of investor relations is just one of several considerations affecting limited partners' fund selection and portfolio construction decisions. Not every investor will turn down an otherwise compelling fund investment opportunity solely on the grounds that the manager has failed to evidence a commitment to quality IR. That said, some of the more sophisticated limited partners active in private equity now claim that, actually, they will do just that. And because many LPs are determined to reduce the number of active manager relationships in their portfolios going forward, shoddy IR just isn't a trait that a general partner can afford to exhibit.

What is more, GPs themselves have come to appreciate the importance and value of keeping LPs abreast of all relevant developments throughout the entire period between fundraisings – as opposed to restarting a previously dormant dialogue the moment the next PPM is about to be mailed. And they know too that it pays to keep track of any personnel-related changes on the buy side. When the time comes to persuade existing clients to invest in the next fund, both activities will make surprises less likely and keep to a minimum the amount of fresh due diligence that investors already familiar with a manager will have to undertake in order to sanction the decision to re-up.

As a result, recognising that in an increasingly competitive environment, best practice in client communication is a strategic advantage, many general partners groups have spent time rewriting their investor relations manuals and invested in people and technology to deliver a better service to LPs. This summer for instance, several leading LBO managers including KKR, Apax Partners and Permira added new personnel to existing investor relations platforms in order to manage the client-facing side of their businesses more effectively.

In addition, LPs confirm that more managers are now using electronic, web-based reporting systems to make fund-related information available in a more user-friendly format and on time. "This is definitely a development we welcome," says Chuck Flynn, head of the fund investment team at Bregal, the increasingly influential New York-based private equity investment group (see also "On the record", p. 80 of this issue).

IS BIG BEAUTIFUL?

Overall, fund investment professionals agree that in terms of investor relations, private equity, having evolved into a significant segment for the money management industry, is moving in the right direction.

"I wouldn't say there is a revolution underway in private equity IR, but the general trend is towards higher quality information being made available to us more regularly and on time," says an investment manager at a large UK-headquartered fund of funds. "For us as a fund of funds, that's obviously critical because we have our own reporting deadlines to meet. For the most part, we're given what we need and when we need it. That said, it's still true that some groups are better at it than others."

Picking up on that last point, Mounir Guen, founder of private equity fund placement specialist MVision in London, notes a "bifurcation between large and small firms" in terms of quality of client service.

To an extent, the tendency for larger managers to handle IR better is a fact of private equity life: as the most established firms continue to grow their assets under management, greater fee income means more resources can be devoted to investor communications.

But this does not mean that smaller firms will always and necessarily be at a disadvantage when it comes to handling investor relations well. For best-in-class IR is not just about information processing. An equally important element is to make sure that personal relationships are looked after well, and it is here that an overly systematised or mechanistic approach can backfire.

"There is a fine line between clinical, professional investor relations management and actually losing touch with your LP base," says the head of a UK-based family office. "Some groups have become so large and institutionalised that they've lost that personal touch in dealing with their clients. It's sad when it happens. And it isn't inevitable: I am a small investor in some of the largest buyout funds in the US, and the people I need to speak to at each one I can always get through to when necessary."

Guen: bifurcation between large and small groups

> *"Organising a useful AGM is a real art. Some of them are horrendously boring, and much of the information isn't relevant."*

The message to GPs here is important: in addition to a professional approach to the technicalities of the investor relations process, LPs value the personal relationship with the fund manager. Says the family office chief: "Good investor relations in private equity is not difficult, and it doesn't have to involve major efforts. Much of it is about being polite."

Limited partners hate going to an industry gathering and being walked past by a manager they have an active relationship with without being recognised. Neither do they respond well to a firm's senior executives delegating their IR duties to others: an LP will not like it when a group's managing partners who originally formed the relationship with the investor when the fund was raised withdraw entirely from the communication process and leave the job to a dedicated IR professional who the investor has never met. The worry here is that form is taking precedence over substance.

KEEP TALKING

According to investors, investment consultants and fund placement specialists, GPs will be given plenty of kudos for getting seemingly small things right. For example, as Bregal's Flynn points out, GPs in his portfolio have started to schedule regular visits to client offices to brief them on recent developments at the partnership and the fund level. The head of the UK family office notes that a number of US houses have instituted quarterly conference calls to update their investors.

Another area where GPs can shine is the annual general meeting as a forum not to entertain clients, but to present solid information and a clear, un-spun message. "The difference in quality between AGMs is still amazing," says MVision's Guen. A UK pension fund investor agrees: "There is a real art to organising a useful AGM. Some of them are horrendously boring, and much of the information isn't relevant. As an LP, I'm not interested in spending 45 minutes listening to a portfolio company executive talking about what's happening in his sector. I want an overview of the fund delivered by management."

In other words, limited partners thrive on relevant information delivered to them efficiently, and in addition to quality paper and electronic reporting, this includes an amount of quality dialogue with the right people in the partnership. Despite the ongoing trend towards better processes, the asset class fundamentally remains a people business. Bearing this in mind is still the key to any winning investor relations strategy in private equity. ■