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► PRIVATE EQUITY OUTLOOK 2008

Twelve months ago the private equity industry asked itself whether 2007 would be another record breaking year, as 2006 had been. For the first six months of the year this question could be answered with a 'Yes' as all sectors of the market maintained their momentum and investors continued to put large amounts of capital to work in the industry. The second half of the year has looked rather different. Turmoil in the US real estate market, higher interest rates, less confidence on the global stock markets, and lower global economic growth have all had a negative impact on the private equity sector. The implications of these factors for the private equity industry will also be important for 2008.

Given a changing market environment, gen-

eral partners will need to put special emphasis on their portfolios: they are now required to increase the value of the companies despite the continuing downturn in the market. In addition to implementing restructuring and repositioning initiatives, active GP ownership of companies also allows the portfolio firms to capture new growth potential more quickly and effectively. A slowdown in the market will shift the focus on to more active GP work rather than on pure financial plays with low operational involvement.

On the limited partner side the market will continue to experience high levels of capital inflow, and the flight into high quality fund managers will continue. As on the general partners side, fund investors will be managing their portfolios more actively, and are likely to try to focus on a smaller number of relationships with higher commitment sizes. First time funds with undeveloped or unstable track records will face long and challenging fundraising times.

Nevertheless, despite the current negative sentiment on the market, private equity will attract

additional capital inflow from geographies that historically had little or no private equity investment activity up to now. Australia, Japan, and the Middle East are becoming increasingly important in any GP's fundraising calendar. With increasing deregulation we can also expect Indian and Chinese private equity investors to become increasingly active.

As in any cyclical market, quality players will prevail. Private equity investors will continue to put trust in the market as they have seen that investments in a more rational environment have outperformed the market. Private equity sponsored companies are likely in general to remain better and more efficiently managed than their peers listed on the global stock markets. Now more than ever, it is up to the GP to show that operational improvement is the key to success. ■

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