

## Time to readjust and adapt

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<http://www.peimedia.com/placement3>

The private equity and private funds placement industry is going through perhaps the most transformational period: the global market decline has led to a dearth of closes, and bank restructurings have led to the disbanding of established teams. Furthermore, a public pension corruption scandal in the US has raised questions about the role and even the very existence of placement agents.

The current market for primary investments in private equity has shrunk to a fraction of what it had been in the last few years, with investors only receiving their private equity allocations for 2009 mid-year as opposed to November 2008. Very little capital has closed to date, and investor sentiment that the 'second mouse gets the cheese' has prevailed. Investors have spent the last two quarters, and will spend the remainder of this year, adjusting the architecture of their portfolios through secondary investments and co-investments. This means that there has been a reduction – almost 75 percent – in primary capital available in 2009 and manager selection will continue to be excruciatingly slow, highly detailed, and concentrated almost exclusively on re-ups.

As fundraisings for managers currently in the market get drawn out, origination of new fund managers has been very slow and access to quality GPs is limited. There are over 800 funds from last year that are still lingering in the market, many unable to achieve their targets. For those fortunate GPs who are processing a close, terms will be very closely scrutinised by small to large investors alike, with increasing pressure on fund size, management fees, transaction costs, keyman and waterfalls.

For placement agents, the inevitable result is a significant short-term reduction in fundraising potential, in new manager selection, and in revenues. Boutique placement agents with limited product offerings will be impacted as fundraisings stagnate in the market, and they will need to look to other services or products like secondaries or infrastructure. Furthermore, the financial and banking crisis has created a challenging period for bank-affiliated placement agents, which have had to deal with market dynamics as well as platform bank issues that impact personnel and, ultimately, their execution capabilities.

However, it is in such times that the importance of an experienced, full-service placement agent becomes evident. In these markets, a placement agent's ability can be crucial in helping a GP communicate and interact with the complex of existing

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investor programmes, and in providing insight to prospective investor programmes that have minimal interest in new GP relations. Providing the GP and LP with appropriate timing expectations for both sides and advising throughout the term negotiation become critical to getting a close in place. The placement agent continues to sift through the vast global market of investment opportunities with an experienced eye to find differentiated managers that would be additive to an investor's private equity portfolio where they are seeking new growth opportunities and/or attractive sectors in the US or abroad.

The good news is that the asset class is resilient, adaptive and full of high-performance potential. The market is efficient; it will incorporate necessary changes by allowing us to view remedying dislocations as areas of growth and by providing operational talent to fix and improve corporate opportunities. We would expect the agents that make it through this period to have leaner businesses, be globally diversified, exhibit diligent preparation processes that rival those of the most discerning investor, provide resourceful and forthcoming advice to general partners, and engage in detailed and perceptive dialogue with a broad investor community. It is important for placement agents to have a diverse set of products, geographically, by type and by size in the current market. The crucial element in the medium-term will be that breadth of knowledge of investor interest, trends, process, due diligence, terms, and disclosures. As the asset class stabilises over the coming years in a new world, agents who can fulfill all these criteria and bring energy and insight will thrive.

Furthermore, while some of today's headlines may question the role of a placement agent in the fundraising process, no serious investor or GP doubts that those agents who provide comprehensive, value-added service to the GP community and the LP community will have a permanent and central role in the private equity industry, and that their specialised knowledge will always be sought. Current turmoil has shone a spotlight on the inadequacies of many 'finders' and 'solicitors' and in the medium- and long-term, the placement industry will be strengthened and the institutional investor market will feel the benefit from the pay-to-play scandal and its ensuing investigation. Legitimate full-service value-added placement agents, institutionalised and regulated in all major jurisdictions, can be clearly distinguished. The industry will independently strengthen self-governing rules of conduct concerning interaction with investors (specifically US public pensions) – providing transparency, regulatory compliance and improving professional standards. This is actually cleansing for the industry, as it allows those who execute with breadth, diligence, and responsibly to positively differentiate themselves. It will also sharply reduce the marginal, questionable finders who are only placement agents in name but do not participate in the full aspects of our business.

Some may say that we are in the midst of an *annus horribilis*, and we may see some more household names suffer and perhaps close shop. But this is also a time to

readjust and adapt. The essence of Darwinism is that those who survive are those who adapt most quickly to change, not necessarily the strongest or smartest. However, in the placement industry, successful agents will have to possess all three qualities. They will need to adapt as businesses, be transparent, contribute to the industry, and thoughtfully advise their GP clients and LP customers. □

***Mounir Guen** founded MVision in 2001. He is a veteran fundraising specialist, adviser and manager previously having spent 13 years at Merrill Lynch where he was a managing director and was responsible for building up the international non-US business, both on the general partner and investor level, and creating a particularly strong franchise. He established an innovative proactive origination programme for Europe and extended the concept to a global model.*

*He has been selected as one of the top-50 most influential personalities in private equity in Europe, and served on the EVCA European Valuation Committee to establish policy currently in use. He currently serves on the EVCA International Relations Committee. Mounir's 20+ years of experience and deep knowledge in the private placement business and, more importantly, his deep relationships with leading global investors are unrivalled in today's market. His focus on the general partner as the client is the principle on which MVision was built and upon which it executes every day.*

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