Q&A

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François Rowell speaks to Mounir Guen, CEO of placement agent MVision Private Equity Advisers, about the fundraising climate in 2010

Having been involved in the recent closure of Sofinnova's sixth fund, your firm has had first-hand experience of the fundraising picture for venture. What is the market like at the moment?

2009 was certainly a very difficult year, not only for venture but also the buyout space. European venture continues to struggle in fundraising as traditional investors have preferred to support later-stage and growth capital funds. In France in particular, there has been a shift in the types of investor that are committing capital in the sector, with some of the traditional institutions being filled by Government-backed FCPI funds.

To investors, European venture is often thought of as developing, and the truth is that most LPs would still prefer to invest in US venture firms. While the UK, France, Germany and the Nordics are to a certain degree agreed to be "mature" venture markets, they do not compare to the US, where firms will be fundraising for fund 12, while their European counterparts will only be raising their fourth fund.

Given this dearth of liquidity, will there be an industry shake-out?

A good barometer is Sofinnova, which is generally regarded as one of the most important venture players in Europe and yet it was still forced to revise the fund size downwards when they launched in view of the economic downturn.

Having said that, a market-leading fund in venture, complete with some impressive exits in 2009, still attracts investors from France and internationally, even in a difficult market, and a good solid close was achieved. Some smaller funds with less impressive records may be less fortunate and we are likely to see a number of firms struggle to raise. Some are adapting to this, though, by slightly shifting their strategy to cover the more attractive later-stage of the market.

Further, in France, as in many other mature venture markets, the early-stage sector is being supported with government funds and this should stem any large clear out.

MVision also acted as placement agent for LBO France's mid-market White Knights buyout fund, which was closed last year. You mention that there is still LP appetite for these funds, but with deal activity in the market limited and access to debt restricted, what makes this sector attractive?

There is no denying 2009 was a tough year for fundraising, but there are pockets of liquidity in the market. LP counters were reset at the start of 2010 and the buyout space, especially the mid-market (which I see as covering funds worth around €1.5-2bn), is still attractive to LPs, especially country-focused vehicles.

France is a mature, solid and deep buyout market that weathered the downturn well, with GPs on the whole managing their portfolio companies through the crisis, and this resilience is attractive to LPs.

2009 was an abnormal year for fundraising: if funds such as White Knights were being raised in 2010, it would probably be three times oversubscribed.

Finally, what factors will affect fundraising this year and what will attract LPs?

New regulation could affect insurance companies in France, limiting their participation in private equity. If this is the case, they will have to restructure or leave the asset class altogether, which could potentially leave a 10% gap in a French €1bn fund. While it would not be easy to fill this gap in the short term with other local investors, I have no qualms in assuming that it can be filled by external investors or that insurance companies will restructure themselves in a way to allow them to invest. LPs generally will seek out funds with a good track record, ideally established GPs aiming to raise their fourth fund or above.

GPs must be able to show that their portfolio companies managed to weather 2009, and must demonstrate their ability to do deals in difficult circumstances, such as those last year, as well as to complete exits thereafter. Proactive funds have these attributes. ■