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More than just a sales job

As LPs have become more demanding and selective, placement agents have had to develop their offering too. MVision founder Mounir Guen talks about the changes

Guen: *personal connections are key*

For placement agents, the story of the last decade can be divided into three distinct chapters. Back in 2001 – the year when Mounir Guen spun out of Merrill Lynch to start placement agent MVision – the world was still in the grip of dotcom fever: venture was all the rage, and buyouts were distinctly unfashionable. Then the bubble burst, and some investors spent as long as 18 months licking their wounds. Throughout this period, buyout funds needed the help of people like Guen to sell their story to reluctant investors.

But that all changed during the boom years of 2003 to 2007. Suddenly, the industry found itself in "the biggest bull market you could ever imagine", as Guen puts it. Investors were looking to ramp up their allocations to the asset class, and many managers were trying to take advantage by doubling their fund size – so they'd often use placement agents primarily to "make loads of phone calls". Says Guen: "It was one big party. All you had to do was tattoo private equity on your chest and you'd get money." In fact, by the first half of 2008, fundraising seemed so easy ("money was falling from the skies") that GPs started to question the need for placement agents altogether.

Then came the financial crisis – and all that exuberance "hit a wall so hard it's incomprehensible". After two quiet years, the fundraising market seemed to be back on the up in the first half of this year, but all the macroeconomic gloom has put paid to that. Now we're back in an environment where it's very tough for GPs to raise funds – and will presumably remain so for some time. "There is money out there, but accessing it is not straightforward," admits Guen.

That's largely because investors have become much more selective, and much more demanding in terms of the information they need to make decisions and assess their investments. So for placement agents, the game has changed. "It's not so much a sales job now," says Guen. "These days it's more about understanding exactly what analytics investors need, ensuring the numbers are correct, and presenting the strategy clearly." He expects his 'project managers' (no 'salespeople' here) to be able to delve into macroeconomics and the technicalities of valuation models; not just bash the phones.

THE MORE THINGS CHANGE…

The placement agent's role has also expanded beyond the fundraising process these days. Guen says that MVision now spends a lot of time on advisory work between cycles: "We look very carefully at how successfully the GP's business is being run" – including financial metrics like ratios, cashflow, constitution of performance, and so on. But when it comes to deciding which funds to work with, governance and transparency are also important considerations, he says. "We want groups that don't shy away, who are transparent about their failures and their successes. They're the people that you want to entrust with your money and your investors' money."

Although much has changed in the world of placement agents, this illustrates one area that Guen believes has remained constant:

the importance of a strong personal connection between agent and GP. "It's about finding people we can work with in the long term. Our motto is: we don't raise a fund, we fund a business – so if you want a hired gun, that's not us. Chemistry is a very large component; we're very personal in what we say to these people, so they have to trust us."

The other big challenge for placement agents has been responding to the industry's expanding geographical horizons. Now investors are thinking globally about their allocations, and in many cases looking to find growth away from stagnant Western markets, the best agents are positioning themselves to take advantage.

MVision's strategy has always been about finding "local heroes" – top-decile country funds that can "source a blend of large and small deals thanks to their local insight, drive performance and growth, and exit on a consistent basis with low losses" – and in doing so, has partnered with a number of trail-blazing groups, like Investindustrial and Waterland in Europe and CHAMP Private Equity in Australia. Now it's trying to do something similar in emerging markets.

"The big thing in the last 18 months has been that investors are going from a 5 percent allocation to emerging markets to as much as 25 percent – and that's fresh cash from mature investors, which is the best kind because they know exactly what they're looking for and they're more comfortable with first-time fund risks," says Guen. For instance, MVision now has an office in Hong Kong, in recognition of the fact that more and more investors were establishing a base there – and were on the lookout for country-specific funds to replace the pan-Asian funds they backed in the early days of that market.

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This is just one example of the way that placement agents have had to change the way they operate internally in response to the demands of the current market. "It requires us to be different firms," explains Guen. "We have to be more global. There's a lot more paperwork. We need more people and resources."

At MVision, for example, that means a research department that focuses on the macro picture (so it might produce a whitepaper explaining the fundamental attractions of emerging markets, say). It means a graphics department, to make its written output more compelling. It means a legal team, to deal with increased regulatory demands. It means active engagement with industry associations around the world. And it means an expanded HR function, to improve the skills of its team.

But the real key, says Guen, is "being able to adapt and change in an environment we can't possibly anticipate". In an unpredictable world, that's what will make the best placement agents stand out from the crowd and earn their fees.