Placement agents: market update

A depressed fund raising market has led to changes among players in the placement agent industry. The withdrawal of some placement groups has opened up opportunities for others, including new entrants. As the investment banks that offer the service thin out the boutique model appears to be in ascension. *Louise Cowley* reports.

Investment banks face a catalogue of problems thanks to the current economic slump and banks' fund placing teams are just one of the areas that have seen cuts in recent years. Having drastically scaled back its private equity commitments, including those to its mammoth in-house fund, JP Morgan reduced the size of its private equity fund raising team and finally wound the business down at the end 2002. After a similar retreat from the asset class, Deutsche Bank followed suit and scrapped its fund placement business earlier this year.

Also this year, nine members of the team at Merrill Lynch left to set up a rival fund raising group at Lazard, dealing a massive blow to Merrill's private equity group. Other departures and number reductions have been reported or rumoured but for the most part the investment banks are now regrouping after this period of upheaval.

Now under the leadership of Christian Dummett, formerly with Abbey National Treasury Services, Merrill Lynch has been recruiting to replace those that defected to Lazard. A founding father of the placement industry, the bank obviously remains committed and is likely to pursue mandates aggressively to ensure its recovery. The group bounced back after it lost staff to Donaldson, Lufkin and Jenrette in the 1990s and a similar resurrection could be on the cards although the bank will find the recruitment market tough given the paucity of candidates with solid and enduring institutional investor relationships, and that those that have those relationships tend to be firmly entrenched.

As Merrill Lynch rebuilds, other banks have been actively developing their placement teams. UBS is focusing its energies on the US market where it is expanding its capabilities through a recruitment programme. Lazard already has five mandates underway and in the medium term hopes to reach a team size of around 15.

The withdrawal of Deutsche Bank and JP Morgan from the market provokes consideration of the long-term compatibility of fund raising services and investment banking practises. Banks are geared towards an annual revenue model that doesn't necessarily suit the 18-month-plus cycle of fund raisings. New placement groups have to prove themselves quickly and when there's a lull in substantial mandates it may struggle to justify its existence. Incentivisation can also be an issue, raising questions about how well the interests of the team are aligned with those of the GPs that they are raising money for.

Deloitte & Touche's decision to offer placement services comes as something of a surprise to many but Chris Ward and John Maxey, head of corporate finance advisory and senior tax partner, respectively, who lead the group, feel it is a natural extension of the services the firm already offers. The group aims to tap into existing skills, experience and knowledge across the firm. Deloitte & Touche has advised GPs on fund raising in the past and Ward is confident that securing mandates will not be a problem: "We know GPs better than placement agents as we work with them constantly on deals." The aim is to raise three private equity funds in the first year, with mid-market buyout or later stage funds in the UK and Western Europe likely targets, then possibly expand into other sectors such as real estate.

The market is sceptical given that strong and enduring investor relationships are generally seen as the key to this business but the firm has contacts with institutional investors through its fund structuring advisory work and B&W Deloitte, the merged Bacon & Woodrow insurance practise. It can also lay claim to the global network that makes investment banks popular providers of placement services. By utilising these contacts it hopes to be able to introduce new investors in areas such as India and Asia to the asset class.

From a tax and fund structuring point of view members of the big four are well positioned as placement agents, perhaps more so than the banks, but it remains to be seen whether they have the necessary relationships with investors. Given the services they already offer many GPs, conflict of interest issues may surface from time to time.

Accountancy firms are not the only ones hoping to capitalise on the changing allegiances caused by the turmoil among investment banks. As sands continue to shift at the banks now is an ideal time for the boutiques to try and move in on some of the territory that they have traditionally dominated. Atlantic-Pacific Capital now has a team of a size to rival the placement businesses of the banks and other boutiques are moving upstream.

UK-based Helix Associates recently formed partnerships with agencies in the US and Australia to offer GPs better access to international investors. After working with US placement agent Monument Group on the mandate for Altor Equity Partners the two boutiques established a joint marketing initiative. In August Helix established a similar collaboration with an Australian agency, Principle Advisory Services. The firm has had sub-agency agreements in the Middle East and Japan for some time and they have proved a successful way of accessing LPs in areas that are geographically or culturally difficult to cover from the UK.

To date Bridgepoint's €2bn Second European Private Equity Fund is the largest offering Helix has worked on, but the firm did not have the full mandate for North America. In the future, with the help of Monument, the group hopes to be able to take on worldwide placements in this league. "Together we can offer the global coverage of an investment bank; although we're going to be highly selective and not compete head-on with them for every piece of business," says Ian Simpson at Helix Associates. Now is an ideal time for boutiques to target the market for larger fund raisings and this has undoubtedly influenced the formation of such multi-geography entities.

Key individuals normally drive boutiques and working practises vary greatly from firm to firm, making alliances such as Helix's difficult to execute successfully. The simpler alternative is organic growth but it can take a couple of years to establish operations in another market and those offering an alternative to the investment banks need to seize the opportunity immediately. Probitas Partners already has a European presence and BerchWood Partners has a London office in the pipeline. Likewise European boutique MVision has established itself in New York.

Not all independent agencies are looking for transatlantic expansion but as some boutiques move onto larger mandates there may be room for more competition at the lower end of the market. Below €250m the number of funds rises dramatically and there may be room for new entrants focused on raising smaller or first time funds. From the GPs' point of view increased competition is good but with the minimal costs of setting up a small group (salaries and T&E expenses until the first fund is closed) and low barriers to entry there are risks. A partner at an established boutique, says: "There is a danger that new groups can over-promise, which leads to disappointment for the funds and a bad reputation for placement agents."