

# IR function boosts return-happy LPs

By Sarah Young

**LP happiness has reached unprecedented levels. A Global Private Equity Barometer published recently by Collier Capital reveals that 97% of LPs feel ‘satisfied’ or ‘very pleased’ with their returns over the past 12 months. As satisfaction with short-term returns rides high, private equity funds are set to be flooded with even more money – 49% of LPs plan to increase their allocations to private equity over the coming year. High returns quench LP thirst, but the role of investor relations cannot be underestimated in keeping LPs nourished and enthusiastic about the asset class on a long-term basis.**

“Returns attract LPs, but investor relations keep them,” confirms Collier Capital’s Tim Jones. This statement hints at the central function of investor relations – long-termism. Much maligned by trade unions and politicians recently for its short-termism, private equity, like any industry, has an essential interest in its longevity and keeping LPs sweet is crucial to this: “Investors are the lifeblood of our business and they want quality and depth of information; so we have to provide them with it,” asserts Brian Blakemore of Barclays Private Equity.

The sustainability of private equity is dependent on LP satisfaction. Discussion of the balance of power between GPs and LPs is a smokescreen for the real question: where are we in the cycle? According to Michael Russell from Altius, the fact that GPs have more flexibility at the moment is largely a reflection of supply and demand dynamics despite the appearance of power in their favour. “Mostly GPs are taking a long term view of what is responsible and fair to their investors. If either party is overly aggressive, people will remember that. It pays to think in the long term,” says Russell. Blakemore agrees that the strength of relationship is key in order to endure a swing in the market: “If you have been too arrogant, you may find yourself in difficulty in the future.”

GP complacency in the current climate of LP-eagerness is a risk and one Mounir Guen of MVision believes can be deflected by ensuring a firm has an effective IR function in place. “The popularity of a fund can hide its IR weaknesses,” he believes, “If the IR function is improved, not only will the fund become even more popular and the processes smoother, it will be better equipped to sustain a downturn.”

In fact, Guen and Jones suggest that the ease-of-fundraising talk is somewhat cosmetic and the IR function, even at this stage of LP enthusiasm, is as important as ever. In Guen’s opinion, MVision still has a job to do – a fund might be popular, but it is necessary to have a placement agent to communicate a GP’s message outside

of fundraising and to have an extra pair of eyes, encouraging introspection. For Jones, the all-powerful GP paradigm is only true for the top-brand GP: “If you dig a little bit deeper, the market is relatively normal and it takes 12-18 months to raise funds.”

As well as being a lubricant, essential to the maintenance of the private equity engine, the IR function is also a sign of the industry maturing and has become much more professional in recent years, “GPs are realising that a huge amount of contact and a powerful information structure and information flow is required,” confirms Guen. Blakemore too points to the evolution of professionalism in the industry: “People who don’t take IR seriously are going to have to start doing so. Some firms treat it as a necessary evil and secondary to the deal-doing operation but IR is a critical part of our business.” IR success is shaped by a firm’s culture. “In order for IR to achieve its potential, the deal guys have to buy into the philosophy of an open relationship,” Blakemore remarks. This is what LPs want. Collier’s barometer found that 85% of LPs found a proactive approach to GP relationships key to their success and in turn it can be assumed that they expect GPs to be proactive in their approach. Collier has developed a dedicated investor services department and Jones highlights the importance of accountability for LP relationships at the highest level of the firm: “Consistent communication through the good and bad times is important so that expectations are kept in line with actuality.”

IR is a two-way street. LPs are keen to invest in private equity, but they still require persuasion. As GPs become more sophisticated, so too do LPs. Collier’s research shows that investors are becoming more active in restructuring their private equity portfolios. The proportion of LPs who have declined to re-invest with one or more of their GPs has grown steadily from less than half (45%) of LPs in summer 2005 to more than three-quarters (76%) now. In addition, Altius is experiencing rising demand for its customised offering. “There is an overall trend for investors to look at private equity in the context of their larger objectives – this leads LPs to look for something more specifically tailored to their needs,” explains Russell.

The increasing attention paid by private equity firms to investor relations is testament to the maturing of the market and necessary to create an industry which is sustainable in the long term. With the importance of the IR role widely accepted, although still a work in progress, it is now time for GPs to start addressing their next challenge – public relations. Communicating with LPs is one thing, communicating with Joe Public might prove to be their biggest challenge yet.