# PRIVATE EQUITY international

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Cover Story

# Waiting for the next wave

**Fundraising is hard work at present, and much less of it is going on. The relative drought of the past two years has been taxing on placement agents, not least because more of them have come into the market and have ended up competing for less business. But everyone is convinced that fundraising will come back in 2004. The trick is to be ready when this happens: the result is that banks, boutiques and one-person-bands are feverishly preparing for this next wave. *Philip Borel* reports.**

If recent tales from the coalface are anything to go by, there is a good deal of upheaval in the private equity placement community at the moment. For obvious reasons, placement professionals, particularly those working for investment banks, are said to be much less happy than they used to be. Ever since the private equity fundraising binge of the late 1990s came to an end a couple of years ago, bonuses have been small, morale low and jobs insecure. As a result, many practitioners are asking themselves if now is not the time to pack up their Rolodex and sign up for gainful employment somewhere else.

> "GPs are getting irritated with the churn at the investment banks"

"There is nobody in this business right now who isn't spinning around trying to figure out what's going on," says Kevin Albert, who heads up Merrill Lynch's Private Equity Group in New York. Albert knows better than anyone that such restlessness can have dramatic consequences: in February this year, his group lost nine senior members when nearly the entire sales team, led by Ben Sullivan and Bill Riddle, walked out to join Lazard Frère, the investment bank and a newcomer to the private equity placement game. The defection left Merrills, which is currently in hiring mode to restaff the unit, with the problem of how to service its ongoing fundraising mandates including some big-ticket LBO funds for Terra Firma Capital Partners and Doughty Hanson.

## A different mood

Lazard's ability to lure the team away from Merrills, widely regarded as one of the most powerful placement platforms in the business alongside Credit Suisse First Boston's private equity fund group, served as the strongest indication yet of how little should be taken for granted in the placement world at the moment.

Other captive groups have been feeling the heat, too. Last year JP Morgan's placement team all but closed down, despite the fact that the bank has huge stakes in the private equity game. Salomon Smith Barney has adjusted the headcount of its fundraising team, as has Deutsche Bank, which according to an insider "no longer has as much interest in the financial sponsors business as it used to have." And there are rumours currently doing the rounds in this notoriously gossipy community that change may also be afoot at Credit Suisse First Boston. Rivals say that part of the CSFB team have been contemplating a spin off as employment contracts are coming up for renegotiation, although a source close to the bank insists that such claims are unfounded and are instead mischief-making rumours started by others in an attempt to damage the group's client relationships.

But it is not just captive placement agencies that have to come to terms with a market environment that has lost much of its former fertility during the turmoil of the past two years. Mandates big or small are thin on the ground, and so the going is tough for everyone. Private equity fundraising peaked in 1999 and 2000, when general partners were able to raise some $200bn in both years. >>

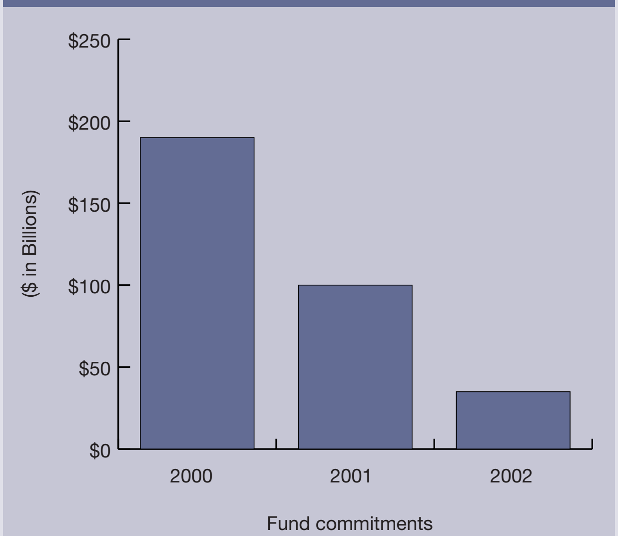
**"There is nobody in this business right now who isn't spinning around trying to figure out what's going on"**

That number fell 50 per cent in 2001 and again in 2002, when new commitments to private equity funds amounted to less than $50bn. And a recovery is still some way off. General partners struggling to make distributions to limited partners from existing funds are forced to hold off on new fundraising efforts, while institutional investors continue to take a beating in the public markets which leaves them overallocated to, and with further reduced appetite for, the asset class.

Meanwhile investors who are still looking to put money into private equity funds have become infinitely more demanding when selecting suitable product. The bar for general partners has been raised considerably. What managers and pundits used to disparagingly refer to as dumb money has long disappeared. "Right now even a minor irritant to an investor doing due diligence on a fund and its manager means there won't be a deal," says a fundraising veteran at an investment bank in London.

Prospective buyers' ultra-sensitivity when evaluating investment propositions means placement agents have no choice but to adopt an equally cautious stance when electing to represent a general partner on the fundraising trail. Placement professionals are in the business of selling a product that is essentially binary in its appeal to the market: investors buying into an offering need to buy into it wholeheartedly, or they won't buy it at all. A private equity fund investment isn't a capital markets transaction; there is no clearing price, and upping the coupon won't make much difference if the buyer doesn't like the product at a fundamental level.

**Private equity fundraising 2000 - 2002**




Source: Venture Economics

**Boston: say no to 90 per cent of potential mandates**

Promoting a fund that nobody wants to buy is the agent's worst nightmare, especially in the current climate. Says Leo van den Thillart, a London-based partner at placement boutique Crane Capital: "For the agent the focus has to be one hundred per cent on credibility with the limited partners. You're only as good as your last fund, and investors are a lot more discerning."

And an independent US placement agent observes: "The big difference now is that out of 1,000 GPs, I bet 600 of them have track records that are down significantly. A lot of groups want to raise money now but placement agents don't want them because of the poor track records."

**"You're only as good as your last fund, and investors are a lot more discerning"**

For captive placement agencies, fund selection can also be a politically sensitive issue. Critics allege that because these teams are often part of a bank's financial sponsors group, they are in danger of having to take on fundraising mandates against their better judgement. This is because, goes the argument, other interest groups in the bank see the mandates as a very effective way of developing or cementing potentially lucrative relationships with a general partner who is likely to also buy M&A advice, acquisition finance, IPO services and other products from the bank.

To be sure, the fact that a bank can do more for general partners than merely help secure capital commitments from investors is one of the captives' key strengths. >>

Manley: interviewed 70 people in five months

Together with deep and often multi-layered distribution channels, this platform approach has helped the major houses such as Merrills, CSFB, Salomon and UBS Warburg to come to dominate the placement business.

But the full service model also means that it can be more difficult for captive agents to follow van den Thillart's recommendation and concentrate fully on protecting their relationships with investors. Says a sceptic of the captive placement model: "Ultimately, people's personal credibility with the buyside is on the line. This is why turnover happens. I can't see how you can keep good people if you don't empower them to take their sales and fund selection seriously."

Practitioners at investment banks insist there are ways to deal with this issue effectively. In essence, captive agents need to have the authority to walk away from a proposed assignment if they are not convinced that they can sell it to the market. Loren Boston runs Salomon Smith Barney's placement business, which is part of a financial sponsors group that according to many in the market has been extremely successful in recent years in making lucrative inroads into the general partner community. Boston says: "Relationships in our general partner coverage team and in other parts of the bank add significant value to our fundraising franchise. But it's important as well for the fundraising team to select among the high volume of opportunities, and to work with only those GPs we believe investors will want to see. If you are a fundraiser at a major bank and you can't say no to 90 per cent of the potential mandates you see, you won't be in the business for long."

"Right now even a minor irritant to an investor doing due diligence on a fund and its manager means there won't be a deal"

The best insurance policy against getting caught between the at times diverging interests of fund managers, limited partners and investment bank colleagues is to identify and work only with differentiated fund offerings that come with strong selling points to the buyside. As a result, agents are knocking hard on the doors of the relatively few top quality managers that are currently gearing up for new fundraising campaigns. In Europe for instance, the word is that there is plenty of placement agent traffic in and around Paris at the moment, where PAI, the pan-European buyout house formerly owned by BNP Paribas, is currently working on a new placement memorandum and is expected to appoint an agent soon to work on its new multi-billion Euro fund.

## Continuity and experience count

The majority of general partners are expected to hold off on new funds for at least another six months, forcing placement groups to bide their time, too. This shortage of marketable product is taking its toll. First in line to hurt are again the investment banks that run large placement groups – CFSB's global team comprises 60 professionals for instance – because the cost of running these is more difficult to accommodate when business is slow. As one member of a large captive organisation puts it: "It's tough to compete with the boutiques that can turn a profit from placing three funds when we need to do ten deals just to break even." Mounir Guen, who left Merrill Lynch's placement group in 2001 to set up his own business MVision, makes a similar point: "Banks having to boost return on capital are going to come under more pressure as revenues are decreasing."

This pressure from above and anxiety from within are both reasons why personnel turnover at captive placement groups has been high recently. Such turnover plays into the hands of the independent houses where the key individuals own the business and are therefore less prone to walking away from the franchise that they helped build. In a business where the importance of personal relationships with general partners and particularly with the buyside is impossible to overstate, a group's internal stability is a critical asset. A placement professional at an investment bank admits: "Now is a good time for the boutiques. GPs are getting irritated with the churn at the investment banks."

This churn is likely to continue for some time. Both banks and boutiques rule out the possibility that business is going to pick up significantly any time soon. Instead, their gaze is firmly fixed on 2004 and 2005. Everyone interviewed for this story agreed that 10 months hence will be the time when the public markets will start their long-awaited recovery, distributions to limited partners improve and new GPs enter the fray, at which point there will be a new wave of funds coming to market to raise capital.

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1988 1989 1990 1991 1992 1993 1994 1995

# The Placement Agent Shuffle

**Even in a turnover-prone industry like private equity, placement agents stand out. Whether the turnover can be chalked up to downsizing or ambition, placement agents have a reputation for job-hopping. This diagram charts the shifting alliances of this small world of professionals who help private equity firms raise capital. The undisputed point of origin of the business: Merrill Lynch.**

### 1988
### Genesis
For the first time, Merrill Lynch formally brings together a group of professionals dedicated solely to the business of raising capital for private equity funds. Let by Jerome Green, the group includes Phil Pool, Ben Sullivan, Jay Applegate, Bob End, Dale Meyer, Bill Riddle, Phil Davis, Stuart Couzzens, and Ray Cosman.

### 1990
### Greener pastures
In what is to become a recurring theme, Jerome Greene leaves Merrill Lynch to join Benedetto Gartland, the New York-based placement boutique founded by Jude Gartland and William Benedetto. (Ben Sullivan follows Greene to Benedetto Gartland, but returns to Merrill Lynch the following year.) The firm is renamed Benedetto, Gartland & Greene. Phil Pool replaces Greene as head of the Merrill Lynch group.

### Late 1990
### Enter Albert
Kevin Albert joins Merrill Lynch's Private Equity Group. Albert joins the placement group after holding a series of positions in the firm's investment banking division.

### 1991
### In the house
Merrill's Kevin O'Donohue joins BC Partners to lead the European firm's in-house investor relations and fundraising effort from an office in New York.

### Late 1993
### Regnum Albertum
Kevin Albert replaces Phil Pool as the head of Merrill Lynch's Private Equity Group. In a move that set the stage for the fracturing of the private equity placement world, Merrill Lynch top brass promote Albert over Pool.

### 1994
### The Great Schism
Phil Pool leads a team of Merrill defectors to form a new placement group at Donaldson, Lufkin & Jenrette. Pool brings with him Robert Rivett, Chad Schultz, Ray Cosman, Phil Davis, and Dick Hill. One of Pool's first hires is Craig Marmer. Later hires include Greg Hausler and Michael Hoffmann.

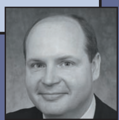
### 1994 to 1998
### The Great Migration
Turnover at Merrill continues. Richard Spencer, Dan Prendergast and Pat McGarvey leave for DLJ in 1997. Charles Froeb joins DLJ in 1998.

### 1997
### Jerome roams free
Jerome Greene leaves Benedetto Gartland to form Jerome P. Greene & Associates. The New York-based firm now includes Frederick Ruebeck, David Naumcheff, Thomas Naumcheff and Susanne McAlister.

1988 1989 1990 1991 1992 1993 1994 1995

1996 1997 1998 1999 2000 2001 2002 2003

**February 1999**
**Meyer Hire**
Dale Meyer is hired to lead Banc of America Securities placement agency and brings with him Michael Smith. Mark Hallock, the former head of B of A's group, joins Pool's DLJ team.



**February 1999**
**Gang of Four**
Merrill Lynch and four placement professionals part ways. Downsizing at Merrill opens new doors for Theresa Clark, David Mullane, Michael Smith, and Dale Meyer. Mullane, who had joined a year earlier from Benedetto Gartland, moves to Chase Capital, while Smith heads to Salomon Smith Barney.

**Fall 1999**
**Carlucci's way**
Merrill managing directors leave for The Carlyle Group. Robert Brown, Lee Carson, and European fundraiser Thomas Fousse, join The Carlyle Group as in-house placement agents. They are later joined by David Tung, Merrill's managing director in Singapore.

**April 2000**
**Meyered in controversy**
Dale Meyer's team at Banc of America defects en masse to Chase Securites (now JP Morgan Chase). The defectors include John Kim and Mike Bolner (both now at Capital Z), Marc Augusti, and Nick Hofgren.

**April 2000**
**Brevity is the soul of Whitney**
Merrill Lynch's Atlanta office head Mark Murphy is hired by Whitney & Co. to lead in-house fund raising. A year later, amid a shakeup at the firm, placement agents Mark Murphy, Steve Hines and Carla Skodinski leave.

**2000**
**Doughty calling**
Stephen Marquardt leaves Merrill Lynch's London office to join Doughty Hanson to build an in-house team of four investment relations and fundraising professionals at the firm.

**April 2000**
**Moving to the Citi**
Susanna Hong leaves Merrill Lynch to join the placement team of Salomon Smith Barney, which was set up in 1999 and built around Deutsche Bank's Loren Boston and four of his Deutsche colleagues, Patrick Dunleavey, Tina Courpas, Neil Banta and Andrew Wilbur. Boston began his career in the 1980s as a corporate finance generalist at, you guessed it, Merrill Lynch. Prior to assembling this team, SSB had considered poaching a group from either Merrill Lynch or CSFB.

**May 2001**
**Unpool**
Phil Pool leaves DLJ (now CSFB) to join Willis Stein. Amid DLJ's merger with Credit Suisse First Boston, the founder of DLJ's dominant placement group is tapped to create new businesses for the Chicago buyout firm.

**September 2001**
**Parting is such Suisse sorrow**
Greg Hausler, Michael Hoffmann and Craig Marmer leave CSFB to form Probitas Partners. The placement and investment services startup is later joined by Dale Meyer, Merrill's Reidan Cruz, and Pacific Corporate Group's Kelly Deponte.

**Spring 2001**
**Moose Vision**
Mounir "Moose" Guen, Merrill Lynch's senior salesman in London leaves to set up his own business, MVision. Joining Moose at the new London-based firm are former Merrill colleagues Kristen Mary, Jennifer Chow, Jane Sutherland and Nicky Brown.

**February 2003**
**And then there was one**
Merrill Lynch team defects to join Lazard Frères & Co. In what may be the largest defection in placement agent history, Merrill Lynch managing directors Bill Riddle and Ben Sullivan lead a team that also includes Mike Sutka, Scott Church, Tim O'Gara, Grey Myers, Robert White, Mark Christopher and Fran Lolli to Lazard, where they establish a new placement business. Only Kevin Albert and junior professionals remain at Merrill. Albert begins to repopulate the business and in March confirms the appointment of Christian Dummett, a former private equity portfolio manager at Abbey National, as head of sales in its London office.

1996 1997 1998 1999 2000 2001 2002 2003

Brown: people should date first

This wave is unlikely to include a plethora of mega-funds, the majority of which have already filled their coffers in anticipation of strong deal flow fuelled by corporate restructuring and the public market's disenchantment with smaller listed companies. But smaller buyout and development capital funds, venture funds, geographically focused vehicles and other types of specialist strategies are expected to boost fundraising significantly from next year on.

This is the time that everyone is anxious to be getting ready for – which explains why, despite the current drought of winning funds to market, recruitment is high on many people's agenda. Jim Manley, founder of Atlantic Pacific Capital, says that due to layoffs and turnover in the industry, there are plenty of experienced professionals looking for work at the moment. "Now is a fabulous time to be hiring placement professionals. We've interviewed 70 people in five months and we're getting unsolicited e-mails all the time."

Loren Boston's assessment regarding the availability of skilled labour in the market is somewhat different: "It's a bit of an arms race out there. Demand for fundraising professionals is strong and increasing. There is a shortage of good and experienced people, and everyone is trying to hire the highest quality talent to prepare for the upturn."

Any view of the current state of the labour market for private equity placement practitioners is somewhat blurred by the fact that financial professionals from other fields are trying to enter the business as well. There has already been a significant influx of newcomers over the past 12 months, to the dismay of the incumbents, who point out that it takes years of experience and personal relationship building to be able to add value to a private equity fundraising process.

"It's true that practically every general partner needs help raising capital nowadays, but I'm amazed at how many people are now presenting themselves as placement agents," says van den Thillart. And Guen adds: "There is huge interest among people coming out of other areas such as general banking and hedge funds. There is a belief that private equity placement is currently just another sales job. That's a misconception." This argument is based on the widely accepted idea that, especially now that investors are much harder to satisfy than they were in the past, there is more to selling private equity funds than making phone calls and sending out PPMs. As Guen puts it: "You need to understand a GP's needs, facilitate introductions, work closely with the LPs and be able to talk through problems in a portfolio."

It is also worth noting that in these demanding times, when scrutiny of the past performance of the GP has become forensic in its rigour, so too has the past performance of the placement agent become a point of interest not just for the GP but for the LP also. Which funds has the agent represented in the past? How have they performed? Which other funds is the agent currently representing? Is this a credible group?

> "I'm amazed at how many people are now presenting themselves as placement agents"

Some may regard this as due diligence by proxy (a fund gaining in stature if represented by a strong placement agent), others will see this as the death knell for novice placement agents. With little or no track record to evidence quality of fund selection and with any current funds they are raising likely to take longer than planned to arrive at even a first close, these placement agents seem bound to inhabit the peripheries of private equity. And the larger, more experienced agents are not going to let them occupy even this space for long if they can help it. "These guys are trying to grab a chunk of business that could be mine," says one longstanding placement agent. "They may talk about new methods or new contacts but I don't see that washing with either funds or investors. This business isn't built that way."

## Transformation

Given that even a stronger-than-expected recovery of institutional interest in private equity would almost certainly fail to take fundraising back to the stratospheric levels that occurred in 1999 and 2000, a measure of consolidation in the placement community seems a foregone conclusion. Merrill Lynch's Albert, who has helped market private equity funds since the late 1980s, says the business is at an "inflection point", undergoing a period of transformation at the end of which there will be a smaller number of globally positioned service providers competing alongside two to three well-established boutiques. Others predict the number of influential boutiques will be higher. Alongside these two groups expect the presence of seasoned and well-connected individuals as well as one-person-bands working on smaller funds or

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tail-end mandates. But don't expect to find the current rash of aspirational placement agents all still standing in 12 months time.

Some independent houses and individuals are confident that they can continue to compete with the large captives partly because they are able to offer a personalised, consulting-style service to a small number of long-term clients. Colin Brown, a former investor relations and fundraising specialist at UK buyout firm Morgan Grenfell Private Equity, who recently launched Transparent Capital, a placement boutique, sees "an opportunity for smaller agents to work in tandem with clients over the long-term." This process he says should start way in advance of a fundraising effort beginning in earnest. "People should date first before they sleep with each other, which in this business often doesn't happen."

Brown's point also applies to the GP/LP interface of the fundraising process. Many general partners in need of fresh capital are currently agonising over the right moment in time to launch their next campaign. Go in now before everyone else comes in? Or wait until their previous fund can show a few more realisations? Call them self-serving, but many placements agents are now urging general partners to be in front of investors all the time: if it isn't a fully fledged sales pitch yet, let it at least be a period of serious and orchestrated pre-marketing. And make sure you have an experienced placement advisor by your side - because it's tough out there. This remains a message that nervous general partners are wholly receptive to. They too are watching and waiting for the next wave.

## Mighty Merrill down but not out

The February 2003 defection of nine senior placement professionals to Lazard Frère decimated the sales team at Merrill Lynch's Private Equity Fund Group, but not for a moment did Kevin Albert, the group's head, think about throwing in the towel. "At the moment our horse power is down, but we're in the process of repopulating the business. There are still 16 of us, we are working 7am to 7pm, and our existing mandates [which include Doughty Hanson and Terra Firma] are very much alive," he says. The recent appointment of Christian Dummett, who while at Abbey National built a private equity investment programme for the UK bank, is evidence that recruitment is progressing. Dummett joins as head of sales in London.

Merrill Lynch has been placing private equity funds for longer than any other house on Wall Street. A dedicated Private Equity Funds Group was formally established in 1988, but a more broadly focused team headed by Jerome Green and placing corporate equity, debt and other products to private investors, had been distributing private equity vehicles since 1981. When private equity fundraising became big business in the early 1990s, Merrills was at the front of the grid to build a powerful fund placement machine. That the firm was able to create one of the most powerful and successful placement businesses the industry has known is testament to this positioning but also to the determination of Albert and his colleagues.

Lazard's recent pounce may have rocked the boat, but Albert, a Merrills man to the bone who became a full time member of the funds group in 1990, is relatively unfazed saying that he has seen it all before. In 1993, he took over as head of the private equity placement business from Phil Pool, which prompted Pool's defection in 1994 to Donaldson, Lufkin & Jenrette (now CSFB) and marked the beginning of a rivalry between the two banks for leadership in private equity placement that continues to this day. "What's happened here recently is bad for the business and hard on our clients, but it's no different from 1994, except that it comes at a better time because the market is a lot slower."

Albert: repopulating the business

To Albert the departure is a reflection of a more widespread mood of restiveness. "Wall Street has not been a happy place in the past two years, there is a lot less money around and people are complaining. The whole placement business is at a major inflection point due to the very significant fall-off in fundraising volumes since 1999/2000. Much of this is permanent and impacting the placement business, which had just completed a dramatic expansion to accommodate the volumes of the late 1990s. The change here is a by-product of that."

On a personal level, Albert says he relishes the new challenge. "It's got me fired up. This is a stimulating time, and it's good to be talking to people who are excited about joining the Merrill Lynch platform." Taking the business back to its former strength will take some time, but Albert is confident he can do it quickly.

Observers note that Albert and his team are indeed working with enthusiasm. Says one: "I think Kevin is feeling reinvigorated and a little angry. And the junior people seem to have got stuck in as well. On Wall Street, when people are working for pride, it can be very powerful." And one of Merrills' clients, Guy Hands at Terra Firma, says that while he is aware that there have been team changes, Albert's group has his full confidence: "Kevin knows our business and has the ability and drive to get the job done." That's what Albert is working on.