

On the minds of the Future 40

Investors from Private Equity International's 40 under 40: Future Leaders of Private Equity class of 2020 and 2021 give their take on market trends and what lies ahead for the asset class

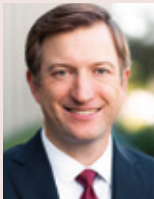
Our panel



Salim Belkaid
Director,
BNP Paribas
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Doris Guo
Partner,
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Partners



Rush Harvey
Director of
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Texas A&M
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Justin Wang
Investment
manager,
Teacher
Retirement
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Q Per PEI's LP Perspectives Study, 74 percent of LPs believe a strong ESG policy will lead to better long-term returns; how can investors drive progress on ESG issues?

Salim Belkaid: Investors need to value their ESG analysis as a core portion of their due diligence, similar to team, track record, etc. Develop precise scoring metrics and be able to measure KPIs across the entire ESG spectrum and throughout cycles. Do not only rely on the ESG section of the GP's PPM, make it a gating item for your investment decision!

Doris Guo: Adams Street has been a signatory to the Principles for Responsible Investment since 2010. We have been working to further enhance transparency related to ESG issues and believe that ESG considerations can present both risks and opportunities. Recruiting talent with ESG expertise will help us better capture quantifiable data and is critical to our efforts in this area.

Rush Harvey: GPs that ignore ESG as "factors that matter" will have a harder time being competitive in regards to

raising capital and attracting business owners to partner with them. LPs need to have grace with GPs that are in the "early innings" of their "ESG progress journey" and continue to push them to be their best regarding ESG initiatives.

Q Almost two-thirds of respondents plan to invest in co-investment opportunities in the next 12 months; what are the most useful considerations to bear in mind when co-investing?

SB: Do not only look at co-investments as a way to get more of your capital invested at lower or no fees; you need to remain focused on your portfolio construction and make sure it is in line with your specific needs. You also need to carry out a disciplined process and potentially think of having dedicated resources.

RH: LPs need to ensure they are aligned with their GPs. Is co-investment being used to lower fees, get exposure to larger deals, or scale up allocations to private asset classes? Co-investment underwriting also has to be considered and LPs that want to "dig in" need to ensure their GPs are comfortable with

their internal co-investment diligence process.

Justin Wang: With the co-investment landscape becoming increasingly more competitive every year, it is crucial to have the right team, resources and processes in place to be able to handle GP timelines and processes. Consistently having transparent communication from start to finish and being able to make decisions with speed and predictability can really help build positive partnership dynamics with GPs.

Q Have the challenges of the past two years had a lasting impact on LP-GP relationships in private equity?

SB: When looking at the latest data it is obvious that private equity fundraising roared back, with a positive expected horizon of growth for the private equity industry in the coming years. When GPs were agile in their communication/fundraising with LPs, some LPs were a bit puzzled and mostly focused on re-ups, missing some great opportunities with newer relationships.

DG: Virtual meetings during the pandemic have provided more flexibility for individuals who cannot join physical meetings, often resulting in more opportunities to interact with participants from multiple regions, which is important to us as a global firm. That said, Adams Street greatly values in-person interaction and we are thoughtfully pursuing those opportunities as covid concerns ease.

RH: This is a relationship business. It is up to both parties to ensure continuity in a partnership. For GPs and LPs that “lost touch” during the last two years, they are both at risk of losing out to their competitors for allocations to those that have been proactive in maintaining and building stronger relationships.



Q How do you expect the private equity industry to evolve in 2022?

SB: We have been hearing a lot about continuation funds and GP-led transactions, in the same mindset, I expect to see more and more permanent capital vehicles, but only a few GPs will get access to this “elixir of immortality”. Another hot topic will be retail money and private equity, as there is an increasing trend in the democratisation of private markets.

DG: The behavioural changes we have seen during the pandemic have made a lasting impact on private market investors, accelerating structural changes that were already underway.

Adams Street believes private markets are well-positioned to be a driving force behind long-term innovation, job creation and growth on the global stage and that private markets over the long term will outperform public markets.

RH: The demand for more exposure to illiquid markets from LPs will not decline, as the need to generate high nominal returns to support their respective institutions will only grow in its importance. The private equity industry will indeed play a massive role in this trend and have to evolve to meet increasing demand in the wake of limited alternatives for LPs to generate returns. ■