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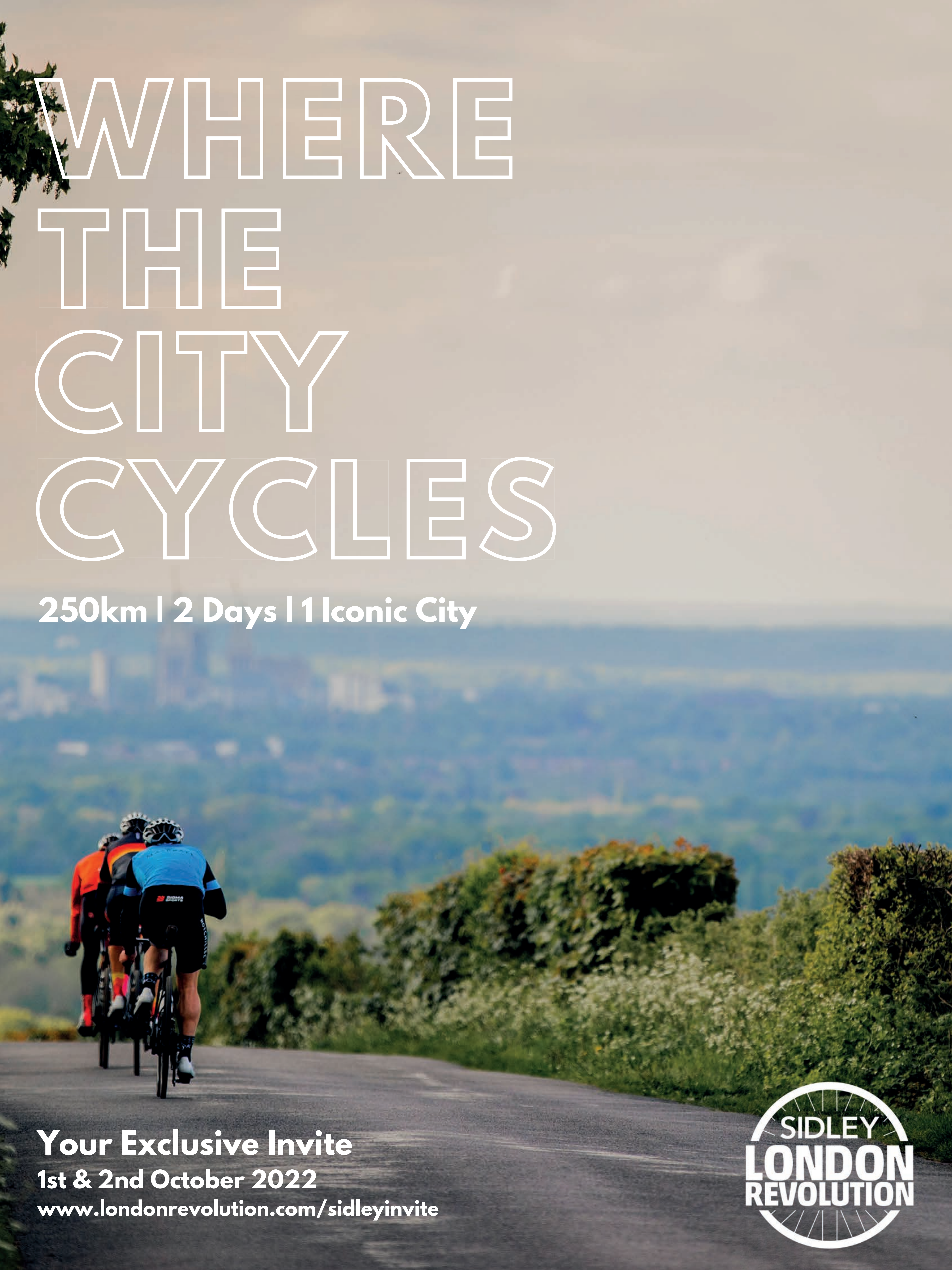
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Editorial

Leader Talya Misiri

Running a tight ship

PE firms are getting their operations and teams in order to prepare for stormy seas ahead.

Brexit, the Covid-19 pandemic, inflation and a war in Ukraine - if that wasn't enough, the markets are now gearing up for a potential recession. Following just over a decade-long bull run, it is not surprising that markets across the world are anticipating a downturn, and it seems that this is high on private markets investors' radar.

Talk of a potential recession is on the lips of most LPs, GPs and advisors at present, and as we head further into the summer months, stormy clouds could be closer than expected. As a result of this, the majority of industry participants are once again crisis-proofing their portfolios and internal operations.

This bumper issue looks at a range of trends in private equity including digitalisation, the rise of PDD, circular economy investing, investor relations, the democratisation of the asset class and much more. And, with this, funds and firms preparing to put their best foot forward and stand ahead of competition is a core theme.

Tightening tech

If the industry has one collective learning from the macro events of recent times, it is that digital adoption is necessary. While late to the party, PE is finally embracing technology throughout its investment lifecycle, with firms seeing the benefits of integrating digital systems to keep up with investor demands, source deals and create value in their portfolio companies. Our cover feature this issue [pages 6-8] looks at PE's newly found love affair with tech and how it is transforming the asset class.

The article outlines that leveraging technology to gather deeper, more granular and high quality data to improve and streamline reporting to LPs is one of the most powerful use cases for digitalisation in private equity. According Emanuela Cisini, principal in the operational improvement team at Investindustrial: "Integrating the various feeder systems that are in place across the front and back office and making the data exchange with portfolio companies more efficient is, in my view, what GPs should be prioritising."

Moreover, tech can also help GPs to manage investor pressures, according to Elain Chim, global head of product – closed-ended funds at Apex Group [page 10]. Discussing the driving forces behind digital transformation projects within PE houses, Chim says: "The second factor that I'm seeing is fee pressure. GPs are facing a lot of scrutiny from their LPs to lower management and performance fees. The key to achieving that is to run very efficient, very lean organisations, and as such, cost effective operations. It makes sense for PE firms to digitise their core functions in order to improve operational efficiency and therefore their margins."

Safeguarding relations

With anticipated rough seas ahead, GPs and LPs alike are also considering their relationships. Specifically, it seems that there is a mismatch between investor requirements and their own capabilities. Our analysis piece on LP-GP relations in this issue [pages 16-17], looks at LP demands for data and the potential friction when it comes to whether, and how, investors are actually processing this information.

Griff Norville, head of Cobalt LP and a managing director at Hamilton Lane told *Real Deals*: "While LPs often have different reporting needs depending on their organisation's size, and the maturity of their portfolio, common factors contributing to the challenges they face include poor data infrastructure, large reporting volume, unprecedented GP activity and lean teams."

Where LPs will be looking to reassess their allocations and portfolio in light of a potential recession, it is crucial for them to also practice what they preach and have their systems in order. While they require a significant amount of data from their GPs, it is also essential that they are able to process this information in a mutually beneficial way.

Indeed, these are just a few of the themes that we look at in this issue. Read on for more about how best to ensure that your firm can continue to run a tight ship and outperform even during stormy seas.

Contents

Alphabites

Valuations expected to drop

Private equity firms expect valuations to drop during the next six months, according to a new report.

DealCloud's *Spring 2022 DealCloud Dealmaker Pulse Survey* report found that 77 per cent of respondents expect valuation and pricing multiples to drop during the next six months compared to the last 12 months. Broken down, 57 per cent of large PE houses felt this way, alongside 42 per cent of mid-market GPs and 32 per cent of boutique firms.

Respondents said they believe this is due to increased competition and current market multiples.

When considering pricing and valuation obstacles, DealCloud found more than half of those surveyed said they are most concerned about increased or overlooked risks impacting valuations and pricing multiples moving forward. A further 27 per cent cited the speed of capital to market, while 18 per cent of respondents identified the need for larger or more capital to deploy.

Investment into UK SME's reached £18.1bn in 2021

Investment into UK SME's reached record levels in 2021, according to the British Business Bank's annual *Small Business Equity Tracker*.

Investments into this segment of the UK market increased by 88 per cent to £18.1bn in 2021, compared to the previous year with a total of 2,616 deals. This is the highest recorded since the British Business Bank started tracking the data in 2011.

So far, this deal momentum has continued into 2022, with equity investment of £7.6bn in Q1 2022, representing the highest recorded in a single quarter.

Investment in UK tech companies has continued to grow, rising to £8.2bn in 2021, up from £4.1bn the previous year

Catherine Lewis La Torre, CEO, British Business Bank, said: "The UK's small business equity finance market has continued to grow, achieving a new record last year. The momentum continued in Q1 of this year – a clear sign of investor confidence in UK smaller businesses following the pandemic."

Failure rate for GP-leds exceeds 50%

The uptake in GP-led strategies has continued to rise despite a significantly high failure rate, it has been noted.

The uptake in GP-led strategies have continued to rise despite a significantly high failure rate, it has been noted.

According to industry experts on a panel during the SuperReturn conference in Berlin, GP-led deals have a failure rate of above 50 per cent.

Despite this, the number of GP-led transactions across Europe and the US continues to grow, with almost all funds embarking on or considering this exit option.

Indeed, 2021 was a watershed moment for secondaries, particularly in the GP-led space, proving increased appetite. According to independent investment bank Greenhill Capital's *Global Secondaries Report*, transaction volume jumped to a new record of approximately $134bn, more than double the $60bn seen in 2020. In particular, sponsor-led activity continued to accelerate, accounting for 46 per cent of the total secondary deal volume.

Panellists agreed that GP-leds are increasingly becoming a favoured route to maximise value in and from strong-performing, trophy assets, in addition to providing liquidity to some investors.

When comparing this strategy's uptake in the US and Europe, an industry speaker noted that there is "a little more caution in Europe". He explained this is due to the nuances and nature of fund waterfalls in Europe which, "can make it trickier to get a strong rollover of crystalised carry into the continuation vehicle".

BRIEFS

FundRock expands to the Netherlands

FundRock has expanded to the Netherlands via the opening of a new office in Amsterdam. Having received full regulatory approval from local regulator AFM, FundRock's new office will provide fund distribution services to clients. "We are excited to announce the further expansion of FundRock Distribution with the opening of a new office in the Netherlands," commented Xavier Parain, head of FundRock. The new office follows the launch of FundRock's distribution solutions operation in Luxembourg in April 2021.

Zeidler launches digital sustainable finance module

Zeidler Group has launched its Global Knowledge Hub (GKH) - sustainable finance module on its digital platform, Zeidler Swift. The module provides guidance via a dashboard to support compliance with the latest ESG and sustainable finance legal and regulatory requirements and obligations for more than 70 jurisdictions. Key features include practical information on disclosure requirements relating to articles 6, 8 and 9 of SFDR, as well as articles 5, 6 and 7 of the Taxonomy Regulation, as well as information on any national "gold plating" requirements across EU jurisdictions.

Allvue partners with Preqin

Allvue Systems has partnered with Preqin to strengthen its benchmarking offering. Through the partnership, Allvue's LP clients will have access to Preqin's private market benchmarking data through its LP Portfolio Management (LPPM) solution, which launched in January 2021. Similarly, GP clients that use Allvue's Fund Performance & Portfolio Monitoring (FPPM) solution, which was updated in March 2021, can benchmark their alternative investments and portfolios against Preqin data.

Alphabites

MJ Hudson partners with Cork Gully

MJ Hudson has formed a strategic partnership with financial and operational restructuring adviser, Cork Gully.

The partnership aims to provide a range of services to private markets fund managers, investors and related parties, including the replacement of a general partner, and the continuation or winding down of funds and similar structures, particularly where that structure or a connected party is under stress.

The partnership will also seek to assist where restructuring is needed due to strategic changes of an investment programme, or where a successful investment vehicle needs to restructure, such as in the case of a GP-led secondary, in order to capture additional value creation opportunities in the portfolio.

Matthew Hudson, CEO of MJ Hudson said: "Whilst there is always a small proportion of funds that will require restructuring, or similar, it may be that there is increased need for these services as the impacts of public health and geopolitical issues are worked through."

Apex launches portal for credit managers

Apex has added a new portal for credit managers - Apex Credit Data Lens (CDL).

CDL is a cloud-based portal, which provides managers with a real-time view of their credit portfolio from their desktop, smartphone or tablet device. The solution is available for credit strategies deployed via closed-ended, open-ended or hybrid structures.

CDL displays real-time loan performance data and break down of transactions and loan portfolios, as well as daily fund and asset level P&L calculations. Loan data is displayed in a visual platform with customisable reports and dashboards.

Eddie Kelly, global head of loan services at Apex Group commented: "With the explosion of interest in credit strategies, we are excited to launch these new capabilities [...] The Apex Credit Data Lens provides our clients with unparalleled visibility of their portfolio, to ensure a seamless data flow through all aspects of the fund and help managers to achieve their goals."

Gen Z call for PE to boost ESG credentials

Private equity firms should better highlight their ESG credentials if they want to secure the next generation of top talent within a fiercely competitive candidate market, new research finds.

Private equity firms should better highlight their ESG credentials if they want to attract the next generation of top talent within a fiercely competitive candidate market, new research finds.

Shift Research Group's latest *Gen Z & Private Equity* report, which surveyed 64 respondents from the next cohort of UK PE professionals, found that more than 85 per cent say a company's ESG credentials is a defining factor when assessing them as a potential employer.

A further 59.38 per cent stated they want to work with a company that's a leader in ESG issues, while 26.13 per cent said that they don't want to work for a company that has a bad track record with environmental or social issues.

Despite a desire to work for a firm with ESG at its core, an overwhelming majority (90 per cent) believe that most private equity firms are not doing enough or should do more to improve the environment, while 85 per cent believe the industry should be doing more to help the local communities in which their investments are based. Meanwhile, more than 80 per cent believe that firms must do more to improve diversity, equity and inclusion within the industry.

In spite of these concerns, for the most part, respondents see the private equity space as a positive force, with 64 per cent describing the industry as one that enhances and supports businesses.

The key traits PE firms are seeking in Gen Z candidates are: articulated opinions, solutions-based thinking, real world thinking and a different perspective.

PE liquidity expected to plummet

Private equity liquidity is expected to drop sharply over the next 12 months, according to the 1H2022 edition of the *Rede Liquidity Index* published in June.

Findings show that the latest overall RLI® score fell from 70 to 55. On average, LPs expect modest growth in their deployment of capital to PE funds over the next 12 months. However, nearly a fifth (17 per cent) of LPs are planning to decrease their commitments.

Findings also show that LPs are reducing allocations to new managers, with the RLI score for LP deployment to new GP relationships falling to 45 from 55 six months ago, with a significant 36 per cent of investors planning to reduce their new money commitments.

The index highlights how macroeconomic challenges are starting to take effect, with a sharp decline in the LP sentiment spelling a tougher fundraising market for GPs raising at present.

"With LPs struggling to meet the fundraising demands of their existing GP relationships, we expect a major squeeze on the number of 'new money' commitments being made," Adam Turtle, partner at Rede Partners, said.

GPs still lagging on DEI

ESG and DEI within PE is steadily improving, but there's still plenty of room for improvement, according to a PineBridge's latest investments survey.

In its third annual survey, PineBridge found that GPs showed an increasing commitment to the governance of its D&I practices.

An overwhelming majority (93 per cent) of managers surveyed reported on taking formal actions to hire from a diverse pool of talent, up from 81 per cent in last year's survey.

Greater gender representation is also being achieved, with 81 per cent of managers reporting that women make up at least 26 per cent of its employees, up from 71 per cent in 2021.

However, the amount of women on investment teams still remains low, with 18 per cent of respondents reporting that women are holding at least 26 per cent of these roles, only up 11 per cent from the previous year.

DIGITALISATION THROUGH THE LIFECYCLE

Private equity may have been late to the party, but the asset class is now embracing digital technology from fundraising and origination through to exit. **Amy Carroll writes.**

It is fair to say that private equity was not a first mover when it came to digitalisation. The asset class's love affair with Excel is deep rooted, whilst earned acumen has long been lauded, and data-driven decision making viewed with suspicion.

There is no doubt, however, that the industry has come to embrace digital technology, initially as an efficiency driver for its own back-office functions. Increasingly, private equity is now also incorporating digital technology throughout the investment lifecycle beginning with the way in which firms amass capital in the first place.

Indeed, as with so much of the world, the digitalisation of fundraising was radically accelerated through the pandemic. "Covid had a significant impact on fundraising and GPs were forced to adapt and evolve their processes to fit a virtual world," says Anders Thulin, head of the digital practice at Triton, which launched its Triton Smaller Mid-Cap Fund II in March 2020. The entire fundraising process, including due diligence, was conducted remotely and the fund closed above its target on €815m.

"Virtual meetings are unlikely to completely replace face-to-face meetings and in-person due diligence. However, they offer a huge advantage for both GPs and LPs in that they make the best use of people's time, accommodate travel requirements, and reduce overall carbon emissions," Thulin continues. "But it goes beyond simply switching to virtual meetings. It is about digitising all aspects of interaction with investors from data portals, how information is shared and webcasts, to how relationships are tracked and maintained."

"When I first started out in investor relations more than 20 years ago, the role was primarily about selling. But it has continued to be transformed by the ongoing integration of data and analytics, which helps us articulate what we do to an increasingly sophisticated LP base," agrees Christian Marriott, head of investor relations at Equistone Partners Europe.

Indeed, leveraging technology to gather deeper, more granular and high quality data to improve and streamline reporting to LPs is one of the most powerful use cases for digitalisation in private equity. "Integrating the various feeder systems that are in place across the front and back office and making the data exchange with portfolio companies more efficient is, in my view, what GPs should be prioritising," says Emanuela Cisini, principal in the operational improvement team at Investindustrial, which has adopted a system whereby portfolio companies and deal teams can directly upload data which is automatically checked for consistency and completeness, enabling reports to be auto generated. "It is important to invest heavily to maximise the integrity of the financial and non-financial data that is provided to LPs."

ORIGINAL THINKING

Meanwhile, the most tech savvy private equity houses are also tentatively exploring the use of digital technology, and artificial intelligence, in particular, to support origination.

Technology has enabled Triton, for example, to develop tools that can combine relevant databases from around the world to sort companies based on their size, geography, and financial performance, and to benchmark them against their peers. "Research that would have taken days to complete manually in the past, can now be done automatically in just hours," says Thulin. "These tools are particularly useful when trying to identify smaller companies for potential add-on acquisitions that are typically harder to find. By automating these processes, our investment professionals have more time to focus on the value-add elements of the deal origination process."

ECI Partners has also trained a model to identify which companies best fit its investment profile and therefore prioritise leads. "We are a focused investor and the task of identifying the very best growing and resilient businesses can sometimes feel like looking for a needle in a haystack," says Suzanne Pike, partner and head of origination. "However, with our proprietary AI lead sourcing platform, AmplifindTM, the number of high-quality leads we can source per 1,000 businesses has increased eight-fold, and we are getting to that answer in a fraction of the time it previously took with our old manual searches. In other words, it is enabling us to spot better businesses and faster."

EQT's Motherbrain, meanwhile, is amongst the best-known AI-enabled origination tools. It allows the firm to track companies that are showing high potential by identifying proven outside-in signals. It then tags them, for example, by sector, business model, geography or focus, and allows the firm to find and follow trends. Finally, it highlights when big changes are happening at the companies or when great people are hired, according to partner in the EQT growth advisory team, Carolina Brochado.

"We operate in a world where we have increasing access to both structured and unstructured data that can help us decide whether or not a company is interesting for us to meet," says David Kirby of Livingbridge. Kirby adds, however, that the time and resource required to train an origination system should not be underestimated. "It is not dissimilar to hiring and training a team. Except, of course, that once it is up and running the model is fairly self-sufficient. I would also say that adoption and acceptance are important, which means ensuring the quality of companies identified is at least as good as the traditional alternatives. Only then will colleagues be willing to take meetings using this method."

DIGITISING DUE DILIGENCE

Having identified a target, an asset then either enters the relationship building phase or goes straight into active due diligence, depending on the process and the nature of the investor.

Livingbridge, for example, uses digital technology to help foster relationships with potential targets as it typically takes the firm more than five years to transact after an initial meeting. "If we see that a company has filed its accounts and has had a record year, we will reach out to congratulate them. The same is true if they have won an award or opened a new office," says Kirby. "We are each tracking dozens of businesses, and we can't trawl their websites every morning for the latest news. But by automating the delivery of this information, we can meaningfully engage with our pipeline."

Pike agrees: "There are all these triggers that can invite a conversation – awards, hires or other company news. Digital technology can help identify the next most powerful action you can take that will help give you the edge."

When a company progresses into full due diligence, digital tools can be used to leverage the proliferation of available data to assess market positioning and growth potential. For example, online sentiment can be assessed by analysing reviews data at scale. Natural language processing can also be used to analyse a target's website and make comparisons between time periods. For example, it can see what skills the business is looking to recruit through the job ads and which key staff have left and joined from the team pages.

"Automation of the due diligence process has allowed GPs to make smarter and better investment decisions," says Thulin, citing the example of a recent healthcare investment where automated tools were used to help assess the attractiveness of the company by benchmarking its performance against competitors with a granularity that would not previously have been possible.

"As well as embracing digitalisation to improve the efficiency of the due diligence process itself, assessing the digital capabilities of a target company is also key," Thulin adds. "At Triton, we assess every potential investment through a digital lens and invest only in companies where digitalisation can be an integral part of the overall investment thesis and business strategy."

> "Top-tier sponsors will have significant experience of digitising businesses and are well positioned to share the benefit of this expertise with management teams.

VALUE CREATION AND EXIT

Once an asset is in a portfolio, the emphasis turns, of course, to portfolio management and value creation. With its laser focus on performance, this is an area where private equity has been quick to embrace digitalisation and has really excelled.

"We use a combination of in-house and third-party tools to automate the process of calculating portfolio performance and benchmarking this against competitors," says Thulin.

"Digital technology is also vital for our portfolio companies, irrespective of the sector they operate in and no matter what stage of development they are at. By offering in-house digital expertise and by sharing knowledge across our portfolio, we can support companies through the digitalisation process, helping them to strengthen their competitive position, grow revenues and improve productivity."

Tim Swales, partner at Equistone Partners Europe, adds that repositioning portfolio companies as forward-facing tech businesses is one of the strongest levers for value creation available to private equity today. "Top-tier sponsors will have significant experience of digitising businesses and are well positioned to share the benefit of this expertise with management teams," he says. "Private equity firms are also able to provide the capital to finance the significant capex required for digitalisation and are unburdened by the shorter timelines imposed on public market investors, affording sponsors the time and headroom required to implement complex organisational change."

Digital technology can also prove valuable at exit, in relation to both acquirer identification and project management. "When it comes to the former, we use technology to map and prioritise the buyer universe," says Brochado. "On the latter, tech can be used to help organise, catalogue, and coordinate all the multiple workstreams during an exit. This is particularly helpful as the more digitised a company is, the lower the friction at exit and the higher the chance of success. That means there should be less errors and less time wasted throughout."

Yamelin Castillo, practice head for wealth and asset management at Lab49, meanwhile, also points to the importance of digitalisation when it comes to optimising exit outcomes. "Digitalisation can create tremendous value and can prepare companies for a profitable exit. It has the ability to crunch the company's proprietary data. But, most importantly, digitalisation gleans insights into wider industry trends," she says. "This is crucial for helping a portfolio company increase its market share, improve operational efficiency and to time the exit correctly."

Indeed, there is undoubtedly potential for digitalisation to add value throughout the investment lifecycle. Private equity firms recognise that they can longer ignore the dominance of data, nor the tools for leveraging its power.

"Those that do not embrace advances in digitalisation will lose out on value creation opportunities and ultimately fail to deliver attractive returns for their investors," says Thulin.

"Automation strengthens every aspect of the investment process and if you're moving forward without it, you will inevitably lose out to the competition." ●

DIGITALISATION AND ESG

ESG is not exempt from the drive towards digitalisation. Investindustrial, for example, uses AI-supported software to systematically identify and assess material ESG risks, by analysing information from public sources, according to the firm's Emanuela Cisini.

Similarly, Triton assesses the potential to combine digital and ESG every time it conducts due diligence on a new company. "Advanced technology not only allows us to collect reliable data to determine a company's ESG performance, but it also helps our portfolio companies to engage in ESG-friendly practices," says Anders Thulin.

For example, Triton-backed Assemblin, which provides heating, water sanitation, ventilation and electrical installation services, acquired a smart building automation and indoor climate control business called Fidelix to increase its ability to offer climate-smart and efficient services.

But the challenges pertaining to the digitalisation of ESG are distinct, as the underlying data set from products that are used to mitigate risks and identify opportunities is brand new, according to Oliver O'Bryan, an ESG data specialist at Partners Group. "The finance industry, together with the European regulators, is therefore making strides to develop standard definitions and methodologies in order to create some much needed sense of uniformity," he says.

Despite these challenges, the digitalisation of ESG is unavoidable, in order to reduce the burden on investment teams and portfolio companies, enhance LP reporting and, of course, to help drive improvements in ESG performance.

"Today, portfolio companies are being bombarded by surveys from all their different asset owners. Digitalisation will make it a less time and effort intensive process and could prove a differentiator with management teams," says O'Bryan. "Being able to calculate and forecast essential ESG KPIs such as carbon footprints and temperature scores per fund and track improvements, whilst having an integrated solution for our LPs that reflects their own climate ambitions, could also prove a differentiator with investors. It is a race that we want to win, as it reflects both our corporate as well as product level commitments."

Q&A

THE NEW DIGITAL ERA

Elaine Chim, global head of product – Closed-Ended Funds and Ankit Shah, head of digital banking at Apex Group assess the evolving usage of tech within PE firms.

By *Talya Misiri*

What is the driving force behind digital transformation projects within PE houses?

Elaine Chim: Investor pressure is definitely one of the driving forces behind digital transformation projects; particularly with the growing need for transparency, and access to more data and analytics. Regardless of whether the PE manager does their own reporting in-house, or if they outsource to a service provider like us, they need to be able to provide increasingly sophisticated investors with a range of information that speaks to performance of their investment mandates and yield targets. As a result, investor pressure is driving a lot of the digital adoption.

The second factor that I'm seeing is fee pressure. GPs are facing a lot of scrutiny from their LPs to lower management and performance fees. The key to achieving that is to run very efficient, very lean organisations, and as such, cost effective operations. It makes sense for PE firms to digitise their core functions in order to improve operational efficiency and therefore their margins.

Ankit Shah: Private equity is a niche market and it is generally a bit challenging when it comes to opening accounts and managing complex structures. By digitising processes, it can certainly add a lot more value in banking proposition as well as speed up this lengthy process.

At the same time, digital platforms can assist PE clients with managing multi-currency accounts, global payment rails, ease of access and cash management while allowing for integration into their global treasury system or group banking system.

How can digital tools improve decision making and the deal process?

Chim: Digital tools can assist with better portfolio management and fundamental value creation. By investing in digital portfolio analytics and management tools, for example, PE managers can improve their decision making in portfolio investments, review the underlying performance of these portfolios and take any remedial steps that need to be taken, because of the transparency provided by better data.

Elaine Chim, global head of product and Ankit Shah, head of digital banking

Shah: I think integration and flexibility is the key here because it enables PE firms to access available banking data and analyse it. At the same time, digital tools can give managers real time information, possibilities to integrate with existing systems/tools which effectively supports them in making better decisions. At times, digital banking tools can also have multi leveraged capabilities allowing them to work across the global banking needs of PE firms and provide necessary banking support to all portfolio companies.

What challenges are PE firms facing when it comes to implementing tech tools? What is holding firms back?

Chim: Not every firm is at the same stage of technology adoption. There are an abundance of technology options out there and a lot of new technologies that are being rolled out, so knowing where to start can be a challenge for PE managers. You also have to invest time and spend to implement any digital transformation strategy, as it makes more sense to leverage service providers, like us, to access the latest technology and tools to do this.

By using an outsourced provider, PE firms save themselves the additional work of adding fixed headcount (and cost) to their business, dealing with technology vendor management and deciding which technology solution is best for them.

What are the digital tech trends that you are seeing in this space? (Both at manager and services provider level)

Chim: For me, there are three main areas, the first being data analytics and that can be implemented throughout the lifecycle of the fund. PE managers can invest in technology to help collate and aggregate all the data needed, all the way from investment research to due diligence once a target company has been identified, to regulatory compliance reviews and then performance reporting on that investment back to the investors. As a result, tech can help to organise data in a unified and also personalised way for whoever is looking at it.

The second trend is AI tools, which can facilitate the digestion of masses of data. If you think about all the data that's needed for decision making, the ability to consume that data effectively is key. The implementation of AI technology, or other deep learning technology, can really simplify and accelerate that process. Combined, AI and data analytics can assist managers in making more informed decisions faster.

Thirdly, blockchain technology is also playing a key part in minimising the need for traditional manual paper-based processes. It can improve efficiency, transparency and security. Specifically it can help with processes that are particularly burdensome, such as during a fundraising where a lot of data is coming in from investors. Using blockchain technology can streamline the overall investor experience because you are driving transparency and enabling the key stakeholders in the process to collaborate over a shared platform.

Shah: Cloud, API integration, global reach and adaptability are the key technology trends we see required by PE funds for their digital banking. In addition, the greater adoption of these technologies including multi-currency digital banking functions can assist with overall flexibility of managing day to day banking from making payments to currency needs, as well as effective cash management. The data integration and extraction capabilities are also very useful where PE funds can manage multiple vendors and manage their finances that are processed on such platforms. Functional simplicity and global access are the requirements of the industry which digital banking can provide.

What are the benefits of outsourcing to tech providers? Are there specific functions that outsourcing is best suited to?

Chim: The benefits are very clear. Tech solutions and outsourcing to providers are usually used for functions that are high volume, resource intensive and repetitive, which are often being done manually. A lot of managers come to us when it becomes obvious that they've hit a point where they either need to invest in technology themselves in-house, or they need to find a partner like us to outsource to because it is unmanageable or inefficient for them to do it themselves. As we have the technology and the infrastructure to assist with these functions faster and cheaper, as well as more accurately, the benefits are pretty clear.

Shah: One of the most important things to consider about banking technology is that in this fast moving fintech environment, it changes constantly and so it is challenging to build such knowledge in-house or develop the correct technology in-house. So, by outsourcing their technology requirements, firms are able to leverage specialist knowledge and it is a good long-term investment, as businesses won't need to continually invest in new technologies as this can be done by the service provider. With API integration capabilities, it becomes ever more beneficial to take advantage of the use of such banking partners and their capabilities. ●

All in for Guernsey

Guernsey's private markets track record has served it well over the last 18 months. Against a volatile macroeconomic and geopolitical backdrop, the island's reputation for stable regulation and tax policy will continue to appeal to private equity managers in an increasingly uncertain world.

By *Nicholas Neveling*

The Guernsey fund industry has been on a great run. At the end of 2021, figures from the Bailiwick's financial regulator, the Guernsey Financial Services Commission (GFSC), showed that NAV for funds domiciled in Guernsey had climbed to an all-time high of £303.6bn, 23.7 per cent up on the previous year. Since 2008, assets under management in Guernsey have doubled.

Despite the threat of rising inflation and interest rates and a volatile geopolitical backdrop following the invasion of Ukraine, the island's fund industry has proven resilient through the first quarter of 2022, with GFSC figures showing that during the first three months of the year Guernsey funds added a further £6bn of NAV to reach £309.6bn.

"When you consider global headwinds, including conflict, inflation and market volatility, the performance of the funds industry has been quite remarkable," says Henry Freeman, a strategic adviser to Guernsey Finance, Board Member on Guernsey's sovereign wealth fund and non-executive director to various investment funds. "I am in regular contact with a number of service providers in Guernsey and they are all busy working on new fund launches, including follow-on funds for private equity managers and new VC funds. There is a good pipeline of new business."

Although the GFSC does not release figures for NAV of domiciled funds by strategy, it does distinguish between closed and open-ended funds. Closed-ended funds account for the lion's share of Guernsey funds, with NAV of £255.2bn.

Almost all of these close-ended vehicles are likely to be private equity funds or funds in adjacent strategies such as private debt, venture capital, secondaries and real estate. Any way you slice it, private markets strategies have been the engine room of the Guernsey fund industry's growth.

"Guernsey has always been a go-to jurisdiction for private equity funds and that has played to the island's advantage during the last 12-18 months as post-lockdown backlogs have cleared and private equity M&A and fundraising volumes have climbed," says Simon Gordon, senior director for fund and corporate services at JTC.

FAST AND FLEXIBLE

The island has of course benefitted from the fair winds that have lifted private markets growth globally (Bain & Co figures put private markets dry powder at an unprecedented $3.4trn), but the Bailiwick's fund expansion is not exclusively down to simply riding the rising tide.

Indeed, a significant chunk of the growth in Guernsey's fund industry during the last 12 to 18 months can be attributed to strategic decisions taken years ago that are now bearing fruit.

Take for example the Guernsey Private Investment Fund (PIF) regime, which was introduced at the end of 2016 and in just five years has attracted investments in excess of £14bn.

The PIF regime was set up to open a simple and cost-effective route to market for managers raising capital from smaller numbers of sophisticated investors. This speed to market has been further enhanced by the island's manager-led product (MLP), also launched in 2016, which allows managers that already regulated to roll out multiple funds without having to clear an approval process for each individual vehicle.

The regulator can approve a new fund within 24 hours under the PIF regime, the application form is only a page long and there is no requirement for the publication of a full prospectus.

The PIF's flexibility (PIFs can be open-ended or closed-ended, and can be established as limited companies, limited partnership funds, unit trusts or in cell company format) has been very attractive for managers across a range of strategies, Freeman says.

"The Guernsey PIF has built up impressive momentum during the five years since its launch. Managers across the private assets suite – including venture capital, buyouts, infrastructure, and private debt – are using PIFs for close-ended GP/LP funds with great success." Freeman adds: "Established managers with a few big investors use the PIF to good effect, but it is as attractive to new fund managers launching new strategies that want to build a track record with a small, tightly knit group of investors."

He goes on to note that the PIF is now also drawing interest from innovative managers in areas such as digital assets and the medicinal application of cannabis and psychedelics. The PIF's speed to market and flexibility to incubate new concepts have dovetailed neatly with requirements of investors in these rapidly developing sectors.

Freeman understands the first digital assets PIF is on track for launch this year, while Leafy Tunnel Fund I, which will invest in medical cannabis and psychedelics, launched as a PIF in Q1.

Guernsey has continued to refine the PIF offer and has recently offered managers further flexibility. The original PIF route to market required the appointment of a locally licensed manager, but now non-Guernsey investment managers can use the PIF structure without having to appoint a Guernsey manager.

"The evolution of the PIF structure over the years shows that Guernsey has an engaged regulator that understands the industry and its requirements," JTC's Gordon says. "The PIF's speed to market and low set-up costs have made it a popular option for venture capital managers and smaller managers, and it is now breaking ground in new asset classes."

STABILITY AND CREDIBILITY

As much as managers have valued the flexibility and innovation that the island's fund regime has offered, the long-term stability of Guernsey's regulatory and political landscape, coupled with the expertise and sophistication of the its service provider ecosystem, have remained a big draw for investors and managers – especially in the face of a choppy macro-economic and geopolitical backdrop.

"Inflation and interest rates are a concern, but in an increasingly uncertain world, stability is going to be a priority for managers when selecting a fund jurisdiction and Guernsey provides that," Gordon says. "Guernsey is a politically steady, tax neutral jurisdiction and that isn't going to change much. You are not going to see a windfall tax out of the blue."

Indeed, the island continues to provide a well-flagged path to market for managers around the world. As a third-country, Brexit had limited impact on the Guernsey market and managers from the US and Asia have continued to raise capital from institutional investors in the biggest LP markets in the EU via the National Private Placement Regime (NPPR).

There is still no timeline in place for the introduction of third-country passporting (which would ultimately replace NPPR), but in any event Guernsey already has a fully compliant AIFMD regime in place and is prepared for when the European securities regulator, the European Securities and Markets Authority (ESMA), moves forward with third-country passporting.

The jurisdiction also meets high standards for tax and anti-money laundering, which has become more and more important for clearing the high governance thresholds institutional investors require.

"From a governance perspective Guernsey ticks all the boxes. Guernsey is on the OECD 'white list', meeting internationally agreed tax standards and is compliant with the Financial Action Task Force on anti-money laundering," Guernsey Finance's Freeman says. "There are jurisdictions that have been put on grey and even black lists and this can naturally make it more difficult for investors to back funds domiciled in those jurisdictions. Guernsey, however, has consistently been white listed and the finance sector offers stability, substance and good governance. As such, we have seen a number of funds and managers migrating to Guernsey and there is a fast track application process for migrations.

"The regulator is pragmatic and ultimately funds are well-regulated to high international standards. Furthermore, Guernsey's status as a positive global citizen is strengthened by its work in sustainable finance (see box) and the Island is an active member of the United Nations' FC4S network of financial centres."

Although there are no figures tracking migrations of funds from one jurisdiction to another, there is anecdotal evidence that the stability of the Guernsey market and the island's high regulatory standards and persuading managers to up sticks and relocate their funds to the Bailiwick.

In an interview with Guernsey Finance Martin Scott, head of Sanne Guernsey, said the island had received "a noticeable increase in enquiries from asset managers looking to migrate their fund structures from other jurisdictions".

Scott put this interest in migrating funds down to growing focus among blue chip asset managers to demonstrate economic substance in jurisdictions where funds are domiciled. This is an area where Guernsey has led the offshore market, having introduced substance requirements regulations in 2018. Guernsey has also spurred fund migrations with the implementation of fund migration regulations in 2020 to help smooth the migration process.

According to Scott, the benefits to Guernsey from fund migrations have compounded as managers have taking advantage of fast-track fund regimes (like the PIF) to set up additional fund structures following the migration of an original vehicle.

The high service levels and experience of service providers on the Island have also appealed to managers when relocating funds.

Also speaking to Guernsey Finance, Rebecca Booth, client director at Carey, said that a client who recently undertook a move from the Caribbean to Guernsey noted the professional approach and delivery of the migration on time and within budget. This is not always a given, as fund migrations can be costly and complex.

JTC's Gordon adds that as managers in the US and Asia have grown and moved to expand their LP bases, Guernsey has been obvious jurisdiction to provide a pathway into the EU investor community.

"For a manager with US and Asian investors that is looking to bring in some European investors Guernsey is a very attractive alternative to a full AIFMD passport. Costs are lower, you can come to market faster and you can still access main European investors via NPPR," Gordon says.

The infrastructure and capacity to meet manager and investor requirements in these ways suggest that the Guernsey fund industry's strong run may have a way to go yet. ●

DREAM GREEN

Best practice in ESG has come a long way from hosting the annual charity golf day and putting some nice graphs in the annual report.

Following the pandemic, which highlighted the mutual interdependence between financial performance and public and environmental health, ESG has moved to the top of the corporate priority list and investment into businesses and projects with strong ESG credentials has exploded.

According to Bloomberg, assets linked to ESG are forecast to mushroom from $35trn today to $50trn by 2025. Market volatility could impact that forecast, but even if there is a slowdown, ESG assets are already at the scale that no investors can ignore.

Guernsey anticipated this growth long before ESG moved into the investment mainstream and is reaping the benefits of its foresight.

In 2018, the island launched the Guernsey Green Fund, a vehicle requiring at least 75 per cent of a fund's investments to go into assets, projects and companies that have a positive environmental impact on the planet. Managers have to demonstrate compliance with internationally recognised criteria that are verified by a third-party and overlaid with regulatory overview. Since launch just under £5bn has been invested through Guernsey Green Funds.

Since then, the island has continued to build out its ESG credentials. In 2020 Guernsey published its first voluntary green private equity principles (GPP), designed to support investors and managers as they navigate ESG standards and guidance in what is still a nascent area in private markets.

More recently the Guernsey Financial Services Commission (GFSC) put out two consultations proposing the introduction of a Natural Capital Fund regime, which is aimed at investments in "nature-positive" assets, and to guard against greenwashing.

"Guernsey has really been ahead of the curve when it comes to ESG. The Guernsey Green Fund was an early statement of intent, and the jurisdiction has continued to lead the way from there," says JTC senior director Simon Gordon.

The jurisdiction's proactive approach ESG has proven invaluable for managers and investors. ESG standards have proliferated as the ESG space has grown, resulting in an alphabet soup of benchmarks and lack of standardisation.

Guernsey's Green Fund, GPP and proposed Natural Capital fund regime have helped to investors to make sure they are not victims of greenwashing and given managers a set of verifiable metrics to evidence their ESG claims to their LPs and regulators.

The development of Guernsey's ESG investment infrastructure has also spurred the development of ESG expertise within the island's service provider community.

"Getting your head around ESG benchmarking is a challenge. There are five or six different standards that I can think of straight away, and that is before you even start talking about the EU's Article 8 and Article 9 funds and the Sustainable Finance Disclosure Regulation," Gordon says. "Guernsey's ESG kite marks have given managers and investors direction, and the service provider community's depth of expertise puts Guernsey in a strong position when managers are assessing what ESG support is on offer across fund jurisdictions."

COMMENT

Surfing the alts wave

Sanne managing director Pierre Weimerskirch discusses the current state of the market and why Luxembourg is a preferred domicile for a number of top funds.

Over the last 10 years alternative investments have grown tremendously, with 2021 breaking records. Luxembourg, as a leading international hub for the distribution of alternative funds, has benefited greatly from this trend. Today, more than 6,000 alternative investments funds with more than USD 1.3trn of AuM are domiciled in Luxembourg. The US is strongly represented. Among the top 10 US private equity managers, nine are present in Luxembourg. The central location of Luxembourg in Europe and its outstanding "ecosystem" around alternative investments have contributed significantly to the success of Luxembourg as a global hub for the distribution of alternative funds.

The strong growth in alternative assets was driven by a decade of negative interests, ground-breaking innovations and a greater global integration of the economy and capital markets. Currently, the world is experiencing several major shifts: increasing interest rates, higher geopolitical risks and interruption of the global supply chain – the waters, so to speak, have become rougher.

Will the recent developments cause the alternatives wave to break? If one looks more closely, it can be seen that there's still plenty of "swell" out there to support the alternative market.

Strong and steady

First of all, there is a record amount of dry powder sitting currently with alternative asset managers. For PE alone, this capital is estimated at USD 3.4trn. Although managers may be more cautious with capital deployment in the short term, the changing environment will present new investment opportunities in the medium term. Markets experienced a similar situation at the beginning of the pandemic in 2020 with a slowdown of deals at first which picked up six or nine months later.

Moreover, managers are continuing to launch new funds. In Q1 2022, global PE funds secured more than USD 175bn of new capital. In this context, responsible investment topics play an increasingly important role, and we see an increased number of alternative funds in Luxembourg following an ESG compliant investment strategy.

The current efforts undertaken by the market to make private equity also accessible to retail investors will help support the alternatives space.

Furthermore, institutional investors such as pension funds or insurance companies have increased their long-term commitment to alternative investments over the years. In the US, pension funds have allocated as much as 25 per cent of their funds to alternatives. Continental European institutional investors are in urgent need of catching up in this context, with the current exposure being 5-7 per cent. In the medium-term, the target allocation ratio is 12-15 per cent.

The current efforts undertaken by the market to make private equity also accessible to retail investors will help support the alternatives space. Only 7 per cent of the PE capital raised in 2021 in Europe came from private individuals. A recent survey among fund managers shows that they expect the share of retail investors in their AuM to increase over the next five years. We are currently seeing several initiatives in this respect.

Alternative assets feeder fund platforms

These feeder funds are open to wealthy private individuals, family offices and private banks through which they can access the flagship private equity and real estate funds of well-known and reputable alternative managers. Due to Luxembourg's attractive environment, many of these feeder platforms who intend to collect the money from a broader range of investors are set up here.

In the set-up of an ELTIF which allows to raise capital from retail investors throughout the EU, the ELTIF must pursue an investment strategy into long-term assets such as PE, real estate or infrastructure. With the review of the ELTIF Regulation in 2021, we have recently seen a stronger interest in the this vehicle. Some managers use the ELTIF as a parallel structure to their main fund, which is aimed exclusively at institutional investors, to raise capital from retail investors as well. The strategy of the two funds is very similar.

The increasingly difficult market circumstances will inevitably lead to certain adjustments in the alternative investments space. Most likely, the number of managers will be whittled down. The more challenging environment will favor high-quality managers with a proven track record and deep expertise in their respective fields. In addition, investors will amend their risk-adjusted return expectations. If positive interest rates can be expected again in the future, then hurdle rates of 5 per cent will no longer be sufficient for alternative investments, however, the underlying trend for alternative investments should remain positive.

This is of course good news for Luxembourg as a global distribution hub for alternative funds. Luxembourg remains at the forefront and continues to adapt its so-called "toolbox" for alternative investment funds in order to make it attractive for alternative managers to domicile their funds in Luxembourg. A specialist, expert jurisdiction that helps firms navigate their way quickly and safely from the depths of the ocean.

Analysis

How much is *too* much?

When it comes to data, are LPs' eyes bigger than their stomachs?

By *Sam Birchall*

LPs have long been captivated by data and the tantalising potential for it to transform investment decisions. It's no secret that investors have been increasing the frequency, detail and volume of reporting requests to support more sophisticated strategies and reporting on new areas like ESG. However, the demand for more granular data versus the ability for GPs to produce that, continues to spark friction in LP-GP relations.

And yet, managers are not the only ones frustrated with the process — data-hungry LPs are themselves struggling to digest the information they're given. It begs the question; are LPs' eyes bigger than their stomach?

Speaking at *Real Deals*' Tech Innovation Conference earlier this year, Walid Fakhry, managing partner at Soho Square Capital, criticised current reporting practices, pointing out that many investors cannot process the amount of data they are receiving from their managers. His choice of words — "It's very easy to bury an LP with data," — is telling of the current challenges investors face.

Amid the rapid expansion of the asset class, it is increasingly clear that LPs are not properly equipped or set up to deal with the mass of data and reporting that they're currently receiving. According to Griff Norville, head of Cobalt LP and a managing director at Hamilton Lane: "While LPs often have different reporting needs depending on their organisation's size, and the maturity of their portfolio, common factors contributing to the challenges they face include poor data infrastructure, large reporting volume, unprecedented GP activity and lean teams."

Bite-sized

A large part of the problem is that there is not enough emphasis on how data is packaged to LPs. Oftentimes, the needed information is presented in unstructured PDF documents that can be time-consuming and painful for LPs to trawl through. Furthermore, as portfolios grow, investors are finding it increasingly burdensome to manually comb through reports to extract the relevant data points, says Norville. "The sheer volume of reporting associated with the asset class, especially with record fundraising in recent years and many LPs growing their portfolios, has made it challenging to keep up."

These challenges have been voiced by the investment community. According to LPs surveyed in the *Brackendale Private Equity Technology LP Sentiment Survey H1 2022*, the key difficulties investors cite include finding the ability to efficiently aggregate data, provisions of ESG metrics, and the specific reporting requirements.

However, in a world of messy data, getting information into a form that is usable is a huge hurdle. Arguably, the industry is not yet structured in a way that allows for this. Many investors believe that it is up to the GP to work out how to package the necessary data and deliver it in bite-sized chunks to the LP. According to Brackendale's survey, when asked about how LPs planned to manage pressure to fulfil stringent reporting requirements, 66 per cent of LPs placed the onus on their GP counterparts.

However, investors themselves have a part to play. "Sadly, LPs have significantly underinvested in their own operations and technology, meaning they lack the systems to make the most of their data," says Norville.

Indeed, a recent study suggests that LPs are failing to turn a lot of the data they have into an effective strategy. A paper entitled *Rethinking Alternative Data in Institutional Investment*, written by authors at APG Asset Management and Stanford University, revealed that an increasing number of global LPs are looking at using alternative data; defined as data that is not traditionally used in decision making, such as media reports, GPs' data, market insights or management presentations. And yet, while most LPs possess such data, 90 per cent of investors said their organisation had no alternative data strategy, while 60 per cent said they were only starting to monitor developments in the space.

Collecting data is only half the battle; being able to derive actionable insights from reporting is another challenge the industry faces, and one that LPs are still grappling with.

Heartburn

Further exacerbating the heartburn caused by heavy data ingestion is the fact that most LPs run lean teams. With the asset class expanding rapidly and investor bandwidth being stretched ever thinner, the ability to carry out effective data management and analysis is being severely hampered. "In many cases, it's a capacity and budget issue, and their data and reporting needs are not top of the list – which we believe is a short-sighted approach that is likely to impact them negatively in the long-run," Norville says.

To remedy this, LPs are increasingly looking at streamlining their processes. According to a recent ILPA survey, 97 per cent of investors increased their tech spend in 2021 with a view to replace manual data management with automated software to support back office functions, performance monitoring, measurement, portfolio reporting and ESG.

Nonetheless, LPs are still a way off getting to where they need to be. "The industry is behind on widespread technology investment and integration. Some LPs still view technology – and by extension data management – as a nice-to-have," Norville says.

Clean eating

The use of clean data and standardisation would solve a lot of issues surrounding reporting and data management, and it's clear that the GPs that can provide this will continue to have a competitive advantage.

However, Sanja Cvetinovic, managing director, Northleaf Capital Partners, told *Real Deals* that standardisation is "still patchy" from managers in the mid-market. "GPs are providing more transparency, but without necessarily formally committing to the ILPA framework, which may create additional burdens with respect to staying current with the guidelines," she says.

There have been multiple efforts over the years to standardise private markets reporting, but with varied degrees of adoption and success, Norville adds. "In recent years, there has also been an increase in data template initiatives, which further complicates the data collection process and can cause strain on LP/GP relations."

Food for thought

Considering LPs' current poor data infrastructure, growing reporting volume, unprecedented GP activity and lack of bandwith, GPs may be sceptical of just how much of the information investors request is being put to good use.

Norville believes the answer largely depends on how much investors have invested in "process, technology and partnerships". If they have taken the time to invest in these areas, he says the availability of data today and the ability for LPs to make use of it has never been better.

"The top LPs are making great use of the data their managers provide," he notes. "But, if you have put these investments off until tomorrow, then you are making decisions in the dark compared to your peers. You may lack critical insight into the underlying operating metrics of your company exposures, an ability to forecast portfolio behaviour, and understanding of the inherent risks of your portfolio allocation strategy."

Cvetinovic agrees, adding that data requests are vital in supporting the investment thesis and analysis of a commitment. "In general, investors are getting more sophisticated to make sure they understand their underlying portfolios and the value creation drivers. Everyone is trying to capture more and more data to be able to better understand growth drivers and monitor the performance of their portfolios," she told *Real Deals*.

Q&A

MVISION

MVision chief executive Mounir Guen, discusses how fundraising has remained buoyant despite macroeconomic headwinds, the outlook for single country mid-market managers and the importance of patience in a busy market.

By *Nicholas Neveling*

In your view, what is going on in the market? How would you characterise it?
It is surreal. Whichever way you turn there is something to consider. Inflation is rising, there is severe pressure on the cost of living, there is a war, there are shortages, we are still dealing with Covid and there has been a large correction in technology stock market prices.

Yet, despite all of this, the private equity industry is flying. The large managers are sustaining high levels of deployment, returns performance has been exceptional and the LP re-up rate to existing relationships is incomprehensibly high. The market is rocketing.

How do you explain that? How has private equity been able to insulate itself from the challenging macro backdrop?
If you strip private equity back to its essence, it is about buying a good growing asset at a reasonable price, adding value through operational improvement and financial engineering, and exiting at a premium. That skill set, and the ability to apply the skill set, comes to the fore at times of uncertainty. If you look back at previous downturns, private equity has generally outperformed during periods of volatility.

There is also the seismic shift across all industries towards digitalisation that accelerated through the Covid lockdown period. Companies are embedding artificial intelligence, data analytics and automation into their operations at hyper speed and that is an incredibly powerful driver of growth. Private equity has become adept at identifying, capturing and facilitating that growth.

Finally, even though interest rates are now rising, they are still very low by historical standards and there is still significant liquidity available to private equity managers. Private equity also still has significant room to grow - the whole asset class still fits into Blackrock.

Overall, the private equity industry has settled into a very efficient groove and the market just keeps on rolling.

Going back to just how busy the market is, how acute is LP indigestion and does the LP base have the bandwidth to see everyone as the market expands at such a rapid pace?
The fund due diligence process has become super-efficient and all the roadshows can be done online. For investors, it has become much easier to get all of the members of a GP together for a call, and for the GP, it is now possible to see between five to six investors a day and meet a deep bench of the investment professional at the same time.

As efficient as the process has become, however, the bottleneck is around LP time. LPs are just swamped at moment. They are in back-to-back meetings every day just trying to work through the re-ups. Finding time for meetings and dialogue is challenging and travel is still difficult for LPs that have to meet new managers to their programmes in person before committing.

The LPs will get there eventually, but as a manager you just have to wait your turn with them. It is like walking into the post office and pulling ticket 38 when ticket 12 has only just been served.

As the industry continues along its growth trajectory, where does that leave the single country mid-market fund, especially at this time when we see all the big global funds and pan-European funds out fundraising at the same time?
Fundraising has diverged into two tiers. There are investment programmes backing the big mega funds and large pan-regional managers, and a pool of investors backing smaller managers and very small funds. If you straddle those two investor pools and you are in the $500m to $2bn fund size zone, there is a squeeze on investor capital and investor time.

What is interesting to observe is that there are very few investors only interested in pure primary opportunities. Co-invest, secondaries and directs have become very attractive and make LPs look at opportunities in different ways. Lower carry and fee structures on co-invest deals mean that 2nd-quartile managers can end up delivering top quartile net returns. LPs are scoping the market for these kinds of opportunities.

How are managers coping with the explosive growth of the asset class? At what point do/should managers just slow down? Can they even afford to slowdown?
It is very difficult to slow down. A few years ago, as valuations climbed, some managers stepped back to see whether those pricing levels could be sustained, and they soon found themselves behind. If you hesitate, it is tough to make up lost ground because the industry is moving at such a rapid pace.

If you look at the speeds at which the private equity machine can operate, the last few years have shown that it can operate at F1 speeds. Running at that pace means you are building up your assets under management, and as a manager you do have to think about what that means for your business and current strategy. How do you absorb the growth?
One pathway is to diversify your offering by size and product. Many managers have very successfully launched smaller funds to retain a presence in market segments they are growing out of as they expand into new markets and take on bigger deals. We have also seen managers expanding into adjacent areas like private debt and real estate and there is also the growth in co-invest that we have already mentioned.

There are opportunities to grow a platform and build out new investment strategies, but it does require a careful governance check to make sure the expansion is in the right areas where a manager can continue to add value.

COMMENT

The new dealmaker component: LP-GP relationships

Alter Domus managing director, capital administration solutions, Dean Schaffer, explains why fostering strong LP-GP relationships is mutually beneficial for both parties.

As the world of alternative investments is evolving more than ever before, a good relationship between GPs and LPs is mutually beneficial. The key drivers of a successful LP-GP relationship are open communication and transparency. These success factors have been further amplified by the pandemic and are requirements in today's operating environment and there are specific actions each party can take to foster these new, strong connections.

Securing funding

When a GP commences fundraising, it needs a reliable pool of capital to hit its targets. Fundraising is a lot easier if it has a supportive LP community. That's one of the reasons that savvy GPs are fostering strong relationships with their LP partners. Successful GPs are continually communicating with their LPs during the life of the funds and not only during the fundraising cycle.

Furthermore, a GP may find itself targeting a deal that requires a cheque larger than its fund allows. Good relationships with its LPs allow them to fund the difference.

GPs also benefit from strong relationships by staying abreast of what's important to the LP community. When GPs have a good relationship with LPs, they will often talk about important market trends. This will help GPs improve their operational process and possibly help them target other, larger LPs. Two current examples are how GPs leverage technology to support the financial function of a private equity firm and ESG requirements. Given LPs have investments across a number of funds, they see best-in-class operating procedures and what technology, like our CapAssure® technology platform, can do to help make GPs more efficient in managing their business. Furthermore, many LPs have more defined ESG policies and are helping GP members navigate what ESG means for their portfolio.

Deals and returns

Many LPs do not have the infrastructure to access direct deals. As such, they rely on the expertise of private equity firms to find good deals and manage them to a successful exit. LPs want to find good partners that allow them to deploy their capital and receive outsized returns. However, it can be difficult to access successful fund managers without a prior relationship with the GP.

Not every LP gets an allocation to a top-performing fund, and not every LP who does get in receives their desired commitment. But oftentimes, being a good LP and showing value to the GP will give LPs access to the funds they want to invest in. That's just the start of how an LP can leverage its relationship with a GP. Once an LP invests in a fund, other opportunities may open up that might not have otherwise. For instance, the GP may offer the LP a co-investment opportunity alongside the fund. And many of these co-investment deals offer better terms, fees and returns.

Finally, when LPs build long-term relationships with GPs, the next time the GP raises a fund, they will likely invite the LP to invest. That means LPs have continuous access to funds and a trusted means of deploying their capital.

Fostering better relations

Open communication and transparency are key to fostering a strong relationship. Having an open line of communication allows everyone to manage what they're responsible for and eliminates any potential surprises.

Consider, for example, what happens when there's going to be a capital call. Best practice suggests that a GP should communicate this to its LP as soon as possible so they can manage their cash and have the capital ready. Poor or delayed communication can put the LP in a bind and, potentially, harm the relationship.

Transparency is another factor that builds relationships. Today's funds can be quite large and complex, and LPs want to be comfortable in knowing that the fund is being managed according to the Limited Partnership Agreement. Clear, detailed reporting allows LPs to better understand the performance of the fund.

From their end, LPs can help with transparency by being vocal about what they need – and what they expect GPs can do to provide the required level of transparency. LPs can contribute to the relationship by helping GPs grow operationally.

For instance, when LPs seek to become value-added partners with GPs, they can start by communicating their needs and talking about what they see in the marketplace. This information can help GPs institutionalize and operationally improve their processes.

For instance, I've seen LPs tell GPs about CapAssure®, our capital administration technology solution that helps GPs manage complex waterfall calculations and GP carry allocations. The GP benefits from this advice because they become more efficient at managing their business and have a better understanding of what the LP community is looking for. The LPs benefit because they have greater reporting, increased transparency into the fund, and a more efficient fund manager. It's a win-win.

The alternative investment sector is fast-growing and shows no signs of slowing down. Successful participants in this arena have realized that there is a mutually beneficial relationship between LPs and GPs. So, a high level of communication and reporting transparency is the key to maintaining and developing these relationships to ensure both parties can grow together. ●

Analysis

COMING FULL CIRCLE

With the circular economy tipped as the next ESG area ripe for a boom, are PE investors getting ahead of the curve?

By *Simon Thompson*

Circular economy is a business approach to production and consumption based on recycling, repairing and sharing existing products and materials. Amidst a global storm of environmental issues, resource shortages, supply chain challenges, and increasingly conscientious consumers, the circular economy has become central to the ESG- minded investors' gaze. Since 2019, assets in public equity funds dedicated to the circular economy grew 28-fold, from $300m to almost $9.5bn. In that same year, BlackRock raised its circular economy fund at $1bn, which has since grown to £2bn AuM.

Circling the square

Carbon neutrality was the first cab off the rank, when it came to PE firms' ESG actions. As it has become more understood, established and ingrained into portfolio companies and firm's KPIs and best practices, the industry is looking to the circular economy as the next major place to make ESG improvements.

Circularity Capital is a PE firm dedicated to investing in the circular economy. One of its most recent investments has been in Bike Club, a bike subscription service that allows families to use and interchange bikes as their children grow.

Ian Nolan, partner at the firm, acknowledges the inherent trade-off for circular based businesses. He explains that while they may not get the immediate pay of selling a new bike, they have a far stickier and more enduring customer base. "It is about deeper customer relationships, and more embedded business models for the long term."

He highlights the attractiveness of circular economy companies like Bike Club to LPs, especially given the potential for recurring revenue streams. From an environmental angle, Nolan emphasises how circular economy models promote product life extension and reduce mothballing between users, resulting in the need for less virgin manufacturing to satisfy demand. "They're absolutely incentivised to keep assets in use for as long as possible and design in longevity and repairability." He adds that removing waste out of the business model also makes it cheaper for the business, consumer, and environment.

Will Emtage, associate director of ESG & sustainable business at RPS, advises PE firms on the ESG and market viability of companies they are looking to invest in. He notes the intersection between agribusiness and the chemical industry as a key emerging circular economy opportunity that GPs are targeting. "It is about looking at whether a business' waste products can be monetised and used for other sectors. In agribusiness, the price of fertilisers derived from the oil and gas sector are rising significantly and present a major cost driver. Innovative approaches which repurpose waste from elsewhere in the chemical industry as a safe and effective feedstock for fertiliser production will become extremely competitive on both sides of the equation."

Artá Capital recently exited Alvinesa, a producer of natural ingredients and circular economy business to ICG. Under Artá's hold, the business enhanced its collection and transformation of pressed grapes and winery waste byproducts, adding the vertical of selling extracted bioethanol as an additive for fuel, gas and natural ingredients such as colourants.

Artá partner, Jaime Alba reveals that Alvinesa saw a significant boost in line with the trend of consumers increasingly demanding natural additives in the place of chemical additives, which in turn has made the food industry willing to develop new suppliers and pay a premium for natural ingredients. Alba says that willingness to pay higher sale prices extends to PE buyers, and their interest in green circular economy businesses. "I'd say there's a strategic premium at exit for any added value circular economy company."

Market limitations

There are some key limiting factors when it comes to finding and backing circular economy businesses. Alba notes that in order for byproduct and recycling-based businesses to be profitable, they need to have a diversified base of partners providing materials. "Circular economy companies need to have a diversified supplier base. If it is too concentrated or you only have few suppliers, then it is a lot riskier to invest unless you have very long term supply agreements."

A second limit to PE investment that Alba notes is the scarcity and the size of deals. He says they tend to be on the smaller side. "It's not easy to find circular economy plays in the market, they are generally small companies suited to small and mid-market private equity investors."

Regulation has become a crucial determining factor underpinning the circular economy market's success. While there are emerging regulations supporting, standardising, and even incentivising circular resource management, Emtage argues that this is still an area in need of development. Especially given the need to minimise risks to first movers and innovators. "Regulators are playing catch up in many areas. The market will benefit as new regulations provide certainty and clarity on the repurposing of byproducts for specific contexts and use cases." Above anything, he says circular economy leaders need to understand parameters that govern regulatory risk so they can innovate in an informed manner as the space progresses ahead.

For circular economy dedicated players like Nolan, regulations and governments could go even further — especially in incentivising all profit-making companies to better manage and utilise their own waste. "Businesses are not bearing the costs of their negative environmental impacts, that cost is being socialised, while profits are kept private." Nolan affirms that financial incentives are a solution that would see the private sector solving a spread of the world's environmental problems "in a heartbeat."

High ESG and regulatory standards in Europe, compared to the rest of the world, has allowed European circular economy companies to develop themselves ahead of their international counterparts, especially as regulators in these regions tend to look to Europe for inspiration, before writing and developing their own standards.

Positive byproducts

Circular economy businesses only account for an emergent part of the market in which GPs can invest. A positive evolution of this trend may involve the integration and standardisation of the circular methods and model into PE's general portfolio management and value creation strategy. As a strategic advisor with an ESG focus, Emtage says his firm is increasingly getting instructed to look at the entire anatomy of businesses and their associated value chain of inputs and outputs, to maximise resources for premium market value. "Circular economy has highlighted opportunities for resource efficiency and monetisation of valuable waste products that historically haven't been addressed. In part, the incredible success of Western capitalism has sort of marginalised the value inherent in waste." Although, he adds that as inflationary pressures build, and as global events highlight the world's vulnerability to resource scarcity, the circular approach may become ascendent in time and an ESG driver.

However, businesses based on large economies of scale, long distance supply chains and widespread distributions, are much harder to integrate circular economy, reuse and recycling practices into. Governments, investors and corporates collectively funnel more than $1.3trn into circular economy initiatives each year. Yet, according to a 2021 *Chatham House report*, the figure represents just 2 per cent of the money currently spent on conventional linear methods of consumption and use of resources.

While circular economy challenges the longstanding business models at the belly of most PE portfolio companies, it also offers massive opportunities in realms of differentiation, premiumisation, recurring revenues, material ESG gains, and market disruption. But only for investors willing and able to get ahead of the curve.

Q&A

ACCELERATED INNOVATION: JERSEY SETS OUT ITS ESG STALL

Elliot Refson, head of funds, and David Postlethwaite, sustainable finance lead at Jersey Finance, and Eva Vogt, Jersey-based head of ESG and impact at EMK Capital, discuss the evolution of the ESG funds landscape in Jersey.

Elliot Refson, head of funds, and David Postlethwaite, sustainable finance lead at Jersey Finance, and Eva Vogt, Jersey-based head of ESG and impact at EMK Capital

Jersey launched its sustainable finance strategy last year – how is it progressing?

David Postlethwaite: When we launched 'Jersey For Good', we said we wanted Jersey to be recognised as the leading sustainable finance centre in the markets it serves by 2030. It was an ambitious vision which is why we also launched our two-year Pathway to Success roadmap. That Pathway focuses on a number of core "tasks" around collaboration; awareness and training; product innovation and quality; creating an enabling environment; and having a clear communication strategy.

In the first 12 months of that Pathway, we hit some really important milestones. In particular, we established a robust framework for collaboration between policy makers, industry and the regulator in Jersey. This has already culminated in the adoption of Jersey's first regulatory regime for sustainable investment, a pragmatic and appropriate disclosure regime that works particularly well in the alternatives space we cater for.

What has the response to this strategy been like from the PE community?

Postlethwaite: We have created some strong links with early adopters and innovators who are helping to shape our vision of what the future holds for Jersey as a sustainable finance centre.

In the first year of our strategy, we conducted a stock-take of key sustainable finance indicators in Jersey to help benchmark our credentials. The data we received from managers and administrators in the alternative funds community has been absolutely essential to furthering Jersey's strategy for sustainable finance.

Why is jurisdictional choice important when it comes to ESG-driven fund structuring?

Elliot Refson: In a survey we commissioned in 2021, 100 per cent of investors as well as 61 per cent of managers and their advisers noted that ESG criteria will play an increasing role in fund domiciliation. It's a trend that cannot be ignored by fund domiciles because it is being driven by the most powerful camp in the PE universe: investors.

We have recently started to see the introduction of ESG regulation in the form of the European SFDR, as well as other standards around the world. But in supporting ESG, the role of the IFC is more than regulation. It is to respect the investor mindset and cater to it in a holistic way, and not simply treat it as a product or service line.

How important is it to demonstrate the impact of PE in meeting global sustainability objectives?

Refson: I believe there is an opportunity for a single jurisdiction to come to the fore in the ESG space. Based on our holistic and joined-up approach, as well as our wider message of stability and certainty, I strongly believe that the jurisdiction will be Jersey. As Jersey service providers develop ever more sophisticated tools and data sets, and as global standards on transparency begin to converge, Jersey will be well placed to help the PE sector clearly demonstrate how it is part of the solution when it comes to the global transition towards a net-zero, sustainable future.

Eva Vogt: There's no doubt that PE has a key role to play in driving the transition to a more sustainable future. Firstly, through investment strategies that seek out companies where there is a clear focus on delivering a social, environmental outcome or facilitating a system change.

Secondly, for those companies who do not have this focus, private equity can help them understand how their business fits into a more sustainable, future economy.

Thirdly, PE can adopt ESG-related policies or performance targets at a fund or portfolio level in relation to core ESG metrics linked to how the company operates and speed up the adoption of, for instance, decarbonisation.

Where are the key challenges for managers and investors in the ESG space?

Vogt: For me, the key challenges include keeping pace with the evolving regulatory environment; finding people with the background, skills and experience to lead on ESG and impact strategies; and the gathering of data. Although there is convergence of standards and reporting frameworks, there is still a lot of 'noise' out there and if managers are dipping their toe in the water for the first time, it can be confusing.

Postlethwaite: On the training and skills front, it's why we launched various education initiatives over the past year as part of our strategy, amounting to more than 600 hours of CPD-accredited training on ESG topics to 130+ industry professionals.

How is Jersey continuing to innovate to meet ESG and other regulatory demands?

Refson: Jersey has always taken a robust but practical approach and this extends to ESG reporting. The JFSC, for instance, introduced new innovative disclosure requirements last year relating to sustainable investments, aimed at addressing the risk of greenwashing. Crucially, the JFSC has not issued a prescribed template for disclosures, enabling managers to meet their obligations using existing templates and reduce duplication.

Other examples of this pragmatic approach include our opt-in/opt-out approach to AIFMD, and the codification of best practice in our substance laws.

Postlethwaite: We believe there is a long-term opportunity for Jersey to build on its expertise when it comes to the "G" for alternatives and to establish itself as a centre of excellence for services such as impact measurement, data analytics, reporting and assurance, and areas where bespoke solutions are needed.

Q&A

COMPASS EXECUTIVES

David Sayers, managing director at Compass Executives, discusses how the firm works with investors to achieve better social equity to build D&I champions.

By *Jennifer Forrest*

How does Compass Executives help investors achieve better social equity and social-related outcomes?
We are an executive search organisation, working predominantly in the health and care sectors, focusing on C-suite and non-executive board appointments.

If you look at the world in terms of representation at the senior management and operational levels specifically, we are still far from the desirable targets for gender and ethnic representation.

We help investors to address this imbalance by helping them to think more creatively about where talent can come from and most importantly, without compromising skill set or culture fit. When coupled with our extensive, curated networks, we can bring about meaningful change.

In what ways can businesses recruit with diversity in mind? And, how can businesses ensure that individuals don't feel like 'token hires'?
Noone gains from tokenistic hires. The candidate will be suspicious of any approach that lacks authenticity (and rightly so) and will feel they are merely part of a process for no other reason than tokenistic representation at shortlisting or approach stages.

For us, the whole process is about maintaining that critical level of authenticity and openness that comes from time spent in the sector and a reputation that won't allow clients to merely pay lip service to diversity.

Our aim is always to "widen the gate, not lower the bar". This is a phrase that underpins our core focus in delivery across all parts of the recruitment cycle.

We need to ensure that the quality and calibre of the individual is still as high as it would be in any other process.

How does a lack of consideration for D&I directly impact businesses?
One of the often overlooked characteristics within diversity is diversity of thought. That creates an environment for people to come in and question decision-making, who might have different lived and learned experiences, are always a massive benefit to a team or a board to progress.

Investors are going to be less keen to invest in businesses that do not accurately represent the society in which they operate in. A number of investors have come forward saying they won't back businesses who who are neither ethical, sustainable or cannot evidence diverse representation.

What are new recruits looking for from their employers post pandemic? How much of a factor is company culture and has this changed?
Company culture always goes to the heart of the entire recruitment lifecycle. We ask all of our organisations about what defines them, their USP's, so we can better understand how they wish to be represented.

Most, if not all, of our client briefings will be given over to a significant element around culture and cultural fit. Our job, when we are assessing talent, is not just to check skills and experience in isolation to considering the "fit" factor, but also think about how the two pieces of the puzzle fit together.

For some companies, the problem isn't with attracting diverse talent, but being able to retain and motivate them. This is something we've always been aware of, and as such, will be launching a new product soon, in addition to our search process, to address this very factor.

A healthy company structure must enable anyone with clarity to see representation in all levels of the business, so they can see that progression is possible and therefore tenable for themselves within the organisation.

People are naturally motivated and inspired by the senior management team. If you cannot see this progression, I fail to see how you can motivate diverse groups and convince them of their long-term future for career advancement. In these situations, you can expect to be challenged as to why that culture has been allowed to proliferate for so long.

If you don't have the support networks, the infrastructure and the culture, there's a very strong chance the retention process will fail over time.

I think we look to organisations, and organisations rightly look to us, about not just hiring individuals, but having some vested interest in the longevity of the hire.

How can recruitment decisions and company culture impact a business' reputation in the wider community that it operates in?
Reputational risk to all organisations is something that the board will always have a strong focus on.

In my position as a board member here at Compass, how we position ourselves to the wider community is always at the forefront of minds. For example, 53 per cent of C-suite hires we delivered within the last year were gender diverse. It's very important for us to practice what we preach. We are a service-based organisation, which is engaged to fulfil a service.

For investors, there is an end goal - that being the point of sale. However, diversity should be a critical focus across their portfolio, and not something they should overlook.

A lack of consideration may have a negative effect on the price point at sale. Overlook diversity at your peril, I would recommend. The fact is, we know that organisations who can point to an inclusive culture not only attract high level talent, above their competition, but they also retain them.

We are occasionally challenged about the cost of recruitment, but the simple statistic, however, is that a poor hire costs far more over time. Losing essential staff to poor values is easily avoided, not to mention narrow recruitment practices will always be harmful and costly too.

Analysis

IN THE DRIVER'S SEAT

Fund-of-funds are taking the lead in democratising the asset class. While the opportunities for involved parties are clear, there are still some bumps in the road for funds to assess.

By *Talya Misiri*

Private equity is throwing open its doors to retail investors, but how this will work in practice, and which firms will fully embrace democratisation, is still somewhat up in the air.

With trillions of dollars of unlocked retail capital ready to be deployed into alternative investment pots, the industry is beginning to introduce innovative investment opportunities for retail investors.

In addition to technology-led platforms, such as Bite, Moonfare and Titanbay, fund-of-funds are proving to be at the forefront of this movement. Some examples include: Neuberger Berman's European Long-Term Investment Fund (ELTIF), Harbourvest and Vanguard's qualified investor private equity fund, venture fund-of-fund AlphaQ, which is opening up venture funds to retail investors, and interestingly, Hamilton Lane's partnership with digital securities exchange ADDX to tokenize a class of shares issued by Hamilton Lane Global Private Assets Fund (GPA), enabling access to the private markets for a broader set of investors in Asia.

With the recent shift to democratising PE, there have been calls for retail investors to get financial advice before committing to private markets due to the complexities and high risk associated with the asset class. As a result, fund-of-funds' offerings could be a way of mitigating this risk through an already vetted, professionally run fund and investment portfolio.

Pantheon partner and global head of Pantheon's investment structuring and strategy team, Imogen Richards notes: "It would be very difficult for retail investors to sift through all of the different private markets funds out there;" thus private markets investment via a fund-of-fund could be a better option.

A safe route

A core benefit of investing in private equity via a fund-of-fund is the diversification it offers. Retail investors can improve their risk reward ratio by gaining exposure to a portfolio that is invested in multiple strategies and managers.

Schroders Capital investment director Vahit Alili agrees: "Retail investors need a degree of protection [when it comes to private markets investments] and diversified products can certainly do this."

Indeed, fund-of-funds can be significantly beneficial for non-advised retail investors. Specifically, this type of fund provides the added advantage of formal due diligence processes, expert manager selection, exposure to a range of fund strategies, as well as geographical exposure and regular, reliable oversight of the portfolio.

Bumps in the road

Where fund-of-funds investment for retail investors seems like a sensible option, there are still nuances and challenges for these managers to overcome. The most obvious area of contention is liquidity – an area that has long kept the door to PE investment firmly shut for retail investors.

Richards says: "The operational implications for managing capital for retail investors versus institutional investors is a big hurdle that I think can be a challenge." Indeed, funds offering access to retail investors will need to provide daily valuations or at least valuations on a regular basis, as well as liquidity for investors.

However, listed vehicles - publicly trading funds, are one way in which some funds are allowing for greater transparency around valuations and liquidity. These funds enable investors to purchase shares in a listed private equity vehicle at any point in time, thereby giving them the flexibility to invest when they see fit, not necessarily when the private equity firm is raising a fund or calling down a commitment and also offer full liquidity.

Indeed, fund-of-funds are well placed to offer retail investors access to private markets in comparison to GPs, Alili says. "This is because it is impossible for a GP to offer a liquid structure," he highlights. Schroders offers a range of investment trusts, which enable investors to gain exposure to investment in the UK, Asia and Real Estate.

To ensure that capital is not being taken out too regularly, however, these funds tend to offer investors quarterly liquidity windows and listed vehicles enable funds to trade in and out as they wish. Richards notes: "I think it's important to have liquidity as an option, but in reality, it feels like people do treat it as a long-term investment."

Moreover, fund-of-funds that are driving the democratisation of the asset class will need to consider their messaging and approach to cater to retail investors. "It's a slightly different mindset for us because we're used to dealing with institutional investors who make large commitments to private equity, whereas retail is a different space. You've got to advertise differently and your brand can be very different in the retail space. So, funds must evolve to attract different types of investors and look at what that means for their identity overall," Richards says.

CLASS OF 2022

The 2022 Private Equity Awards showcased the very best firms and advisors the asset class has to offer. We profile some of the winners.

THE PRIVATE EQUITY AWARDS 2022

The resilience of the asset class over the last three years has been undeniable. Our industry has continued to beat records when it comes to deal activity, fundraise at faster rates than ever before, attract growing cohorts of investors and continue to manage portfolios to ensure growth and value is created following the pandemic.

Faced with continued macro uncertainties, private equity has adapted and continued on its flight to quality. Deals and fundraises completed in 2021/22 so far are a true testament to the industry's resilience and strength.

Our winners displayed an in-depth understanding of the continually evolving environment, agility and innovation in dealmaking, fundraising and advisory services, and results that position them as truly ahead of their peers.

Congratulations to all of our winners!

Talya Misiri
Editor

PRIVATE EQUITY AWARDS 2022: THE WINNERS

ADVISORY AWARDS

ASSET BASED LENDER OF THE YEAR
ABN AMRO Commercial Finance

COMMERCIAL DUE DILIGENCE PROVIDER OF THE YEAR
CIL Management Consultants

DIGITAL DUE DILIGENCE PROVIDER OF THE YEAR
onefourzero

EUROPEAN CORPORATE FINANCE HOUSE OF THE YEAR
William Blair

FINANCIAL DUE DILIGENCE PROVIDER OF THE YEAR
Alvarez & Marsal

FUND ADMINISTRATOR OF THE YEAR
IQ-EQ

LENDER OF THE YEAR
Investec

PAN-EUROPEAN LEGAL ADVISER OF THE YEAR
Latham & Watkins

PLACEMENT AGENT OF THE YEAR
Campbell Lutyens

POLITICAL DUE DILIGENCE PROVIDER OF THE YEAR
Global Counsel

REGIONAL LEGAL ADVISER OF THE YEAR
Wardyński & Partners

SPECIALIST ADVISER OF THE YEAR
MJ Hudson

UK CORPORATE FINANCE HOUSE OF THE YEAR
Houlihan Lokey

DEAL AWARDS

CENTRAL AND EASTERN EUROPEAN DEAL OF THE YEAR
Advent International for InPost

GERMANY, AUSTRIA, AND SWITZERLAND DEAL OF THE YEAR
Ufenau Capital Partners for Swiss IT Security Group

FRANCE AND BENELUX DEAL OF THE YEAR
Kennet Partners, Goldman Sachs for Nuxeo

MEDITERRANEAN DEAL OF THE YEAR
Investindustrial for GeneraLife

NORDIC DEAL OF THE YEAR
Summa Equity for Sortera

UK UPPER MID-CAP DEAL OF THE YEAR
Permira for Dr. Martens

UK LOWER MID-CAP DEAL OF THE YEAR
CBPE Capital for Xceptor

UK SMALL-CAP DEAL OF THE YEAR
Encore Capital for Third Space

VENTURE CAPITAL DEAL OF THE YEAR (EV ON ENTRY OF LESS THAN €25M)
Earlybird for Peak

HOUSE OF THE YEAR AWARDS

CONTINENTAL REGIONAL HOUSE OF THE YEAR
Summa Equity

GLOBAL HOUSE OF THE YEAR
Advent International

PAN EUROPEAN HOUSE OF THE YEAR
IK Partners

SPECIAL SITUATIONS HOUSE OF THE YEAR
Zetland Capital

UK HOUSE OF THE YEAR
Synova

VENTURE CAPITAL HOUSE OF THE YEAR
DN Capital

SPECIAL AWARDS

CO-INVESTOR OF THE YEAR AWARD
HarbourVest Partners

ENVIRONMENTAL, SOCIAL AND GOVERNANCE GP
Ambienta SGR

ENVIRONMENTAL, SOCIAL AND GOVERNANCE LP
Capital Dynamics

DIVERSITY AND INCLUSION LEADER OF THE YEAR – GP UPPER MID-MARKET
Hg

DIVERSITY AND INCLUSION LEADER OF THE YEAR – LP
Pantheon

DIVERSITY AND INCLUSION LEADER OF THE YEAR – VC
Blume Equity

UK MID-CAP PRIVATE EQUITY LEADER
Richard Mayer, partner, MML Capital Partners

PRIVATE EQUITY HALL OF FAME
Michele Giddens, Bridges Fund Management & Philip Newborough, Bridges Fund Management

Winner's Q&A

TOM KING, GLOBAL COUNSEL

Global Counsel's practice director Tom King, discusses the role of PDD post-deal and how GPs are assessing the impact of macro factors on their portfolio.

THE PRIVATE EQUITY AWARDS 2022

By *Talya Misiri*

What can Global Counsel offer GPs and how has the firm's offering evolved?

We're best known among GPs for political due diligence and that's at the core of what we offer and what we talk to the industry about.

Over the last two years, we've expanded well beyond the deal process to a much more holistic, end-to-end offer, which combines both due diligence and strategic advisory services much more akin to what we would offer any corporate. Translating that into the world of private equity often means we'll eventually be advising the management team. Just as often, we will be advising GPs on a whole market or a whole sector, where either funds are considering new investments, whether new platform investments or bolt-ons, or they're considering how to best help their portfolio companies navigate change in those sectors and ultimately sell businesses. Our work has become much more geared towards the whole investment cycle, and indeed, the whole fund cycle.

How does PDD fit into the post-deal investment process and value chain? Why is this important?

PDD is now an important part of planning for growth. Today, our reports are not merely focused on risks and red flags - we also consider how to mitigate those risks, what actions need to be taken after the investment and then how the growth plan can be implemented or enhanced. This is also applicable to the PE house itself. Working from a political and regulatory starting point means you can identify not only commercial but reputational risks.

Areas we consider include the new national investment and screening regime for example, where companies and funds need to be more aware of notifying the government formally about takeovers of certain businesses. There's more scrutiny around certain industries, particularly in the tech and defence industry, but even areas like public health are now covered by that regime. At the same time, there is increasing media scrutiny of the social impact of companies and their owners, especially in sensitive sectors like childcare and social care.

What has led to the rising importance placed on PDD over the last few years?

I think it goes all the way back to the financial crisis. When I started working in PDD in 2012, it was still a time when banks were not eager to lend, so there was still quite a tight credit situation. As a result, PDD became a way of evidencing the fact that you were doing more work as a GP around a deal - that was the initial starting point for its rising importance.

Four years later, we were faced with Brexit and Trump, massively increased economic volatility across Europe and then more recently the Covid-19 pandemic and the Russian war in Ukraine. As a result of all of this, governments have become more interventionist and the rise of right wing populism has also made governments much more interventionist by nature. It is no longer a simple left-right divide where investment and business are either frowned upon or given a relatively free hand. We're seeing that in lots of other countries as well across Europe, Asia and North America, and so it has become a much more complex area to navigate.

Why should PE firms consider national, as well as international change when assessing an asset?

In the early days of PDD, there was a focus on companies that have what I would call primary risks around politics and regulation, which are mostly national level. This included businesses that were private providers within the public sector, essentially those that are typically facing national level political and regulatory change and whose customers or commissioners are within that national jurisdiction. We can think of private health or social care here, or software providers to schools or local government, or electronic tagging of offenders.

Increasingly, we're providing DD on assets that have secondary and tertiary risks. So, as well as facing some of those primary risks, they're often also importing components or goods from a variety of other countries, or exporting products across the EU and further afield. They may have a plethora of different customs, tax, and regulatory regimes to deal with and they're also facing a lot of change within those. This can include national or EU legislation on ownership structures, supply chain issues, labour conditions and human rights, new tariffs and so on. This consideration of secondary and tertiary risks is being driven by competition for more complex assets that are perhaps UK-headquartered, but also operating in different locations internationally. It's now unusual that a company is only based in one country, and so this type of diligence is becoming more necessary.

How are GPs considering volatility and the impact of a recession on their assets?

The GPs I speak to have taken a couple of months to rethink what they're going to do and how they will respond, should the economy continue to struggle, and what to prioritise in the context of a high inflation period, which is unusual by recent historical standards. But the reason they've been reappraising their strategy is because they still need to get money out of the door. There's still a very strong onus on people to do deals. A lot of my clients are feeling pressure, both from deal teams, but also from LPs to get capital deployed.

I think the type of assets people will look for will change. There will be more interest in businesses with guaranteed revenue – for example skills and training companies - and I think it's possible that there could be more investment in sectors that have been underappreciated - e.g. logistics companies or specialist recruitment businesses. There will also just be more investment in distressed businesses as valuations fall, which is an opportunity, but can bring more difficult questions around reputation – for example if you need to 'right-size' the employment footprint.

The fact that the UK Government has now agreed its headline spending for the next three years to 2024/25 gives quite a lot of certainty if you're a private provider into the public sector. I expect there to be a lot of competition around those assets.

In order to prepare for an increasingly likely recession, what are the key learnings from previous downturns that investors should be aware of?

It's definitely a different situation to the 2010-20 decade in that politics has moved on from austerity being the consensus among policymakers. Investors should be looking out for perhaps a change in personnel, at the top of government, where more spending may be unlocked, and then they should be looking at how that chimes with their investment strategies. We are also in a very different political landscape now than in 2019, where Labour are a much more relevant opposition, and the prospect of a change of government at the next election is a real possibility.

There's a general point to make about private equity which is that the industry as a whole will continue to come under scrutiny. We've just seen, for example, the McColl's rescue, which was a very good outcome for a challenged business. There will be other examples of businesses that don't have such a good outcome, where PE ownership will come under scrutiny from Parliament and the media. GPs will probably have to make some hard decisions. They did a good job in the pandemic of protecting their portfolios and making sure jobs were saved. I think there's a continuing challenge for the industry and for individual funds around how they position themselves and present that story. Reacting to negative stories will not sufficiently address both a highly competitive fundraising environment and a political economy that is increasingly characterised by quite shrill ethical judgements.

Winner's Q&A

CHRIS MASEK, IK PARTNERS

IK's CEO Chris Masek, discusses how long-standing initiatives at the firm led to impressive achievements in 2022, and have also prepared it well for the years to come.

THE PRIVATE EQUITY AWARDS 2022

By *Hannah Langworth*

What achievements are you proudest of from the past year?

Winning Pan-European House of the Year at the Private Equity Awards 2022 and being recognised by our industry was such a proud moment for us. Beyond a prestigious trophy, last year was the culmination of an outstanding period covering many important milestones. We had a record year of fundraising, portfolio performance and returns to investors, and expanded internationally, opening our New York office for IR and fundraising and launching our UK mid cap strategy.

We also rebranded to IK Partners, a subtle name change that better reflects our current momentum and strategy of pursuing "People-First Private Equity". I could not have been prouder of our own people and the immense talent IK boasts.

We were also honoured to promote five colleagues to the partnership recently, some of whom started their private equity careers with us and are a testament to how investing in your own teams can add value to the wider group.

What has set you apart from your competitors over the past year?

The last year has seen us bearing the fruits of our unique approach that we have been fine-tuning for over 30 years, partnering with growing companies and supporting them as they scale up and expand into new markets by combining proactive buy-and-build strategies with operational improvements.

We focus on businesses in Benelux, DACH, France, Nordics and the UK, concentrating on business services, healthcare, consumer and industrial sectors. Typically we will have already identified a series of strategic add-ons before a new investment is even signed, giving us an edge with competitive deals and enabling us to accelerate companies' growth strategies and our exit opportunities.

Our seven European offices are all supported by IK's capital markets, operations and ESG teams so while our platform investments are sourced through our experts in local markets, the portfolio benefits from the combined resources available across IK. This makes life easier for management teams and helps us drive superior returns as we take advantage of the collective skills across the group.

How have you maintained strong investment and exit activity over the past year despite the ongoing challenges of the pandemic?

Our people-centred approach and clear investment strategy helped drive strong investment returns. The priority at the time was safeguarding the health and welfare of our employees and the 35,000 people across the portfolio. Our operations team really came to the fore and worked tirelessly to mitigate the impact – from making initial impact assessments to the development and implementation of recovery plans.

IK's long-standing and disciplined investment criteria ensured a resilient portfolio capable of operating through economic turbulence. We continued the planned exits on our original timetable and were well placed to execute on several exciting investment opportunities that became available.

You also conducted an impressive fundraising round. How did you manage this?

Throughout all the disruption, we have raised over €4.3bn since the first lockdown across our mid cap, partnership and small cap strategies. We held fully virtual fundraising processes, with our IR team building strong relationships with both new and existing LPs.

Our track record of delivering impressive returns is clearly an important factor, but so too is maintaining the "client experience" to ensure that existing LPs feel confident in returning to us for future funds. This is where our IR and communications teams come in, as their ability to articulate our strategy, respond to investors' needs, and update on developments helps build the confidence among LPs to continue investing with IK.

What single deal from the past year best sums up your particular approach and its strengths?

BST, the fire protection services provider, is a great example of what IK does best. We first invested in 2019 when the company only had a presence in Sweden. By the time we exited in 2021 the company had expanded to Denmark and Norway, built out new finance, HR and sales functions with the support of our operations team, and grown revenues threefold.

In just three years, BST went from an entrepreneurial small cap player in Sweden to a market-leading mid cap champion across Europe.

What are your predictions for the coming year?

We are clearly in a changing environment with inflationary and supply chain pressures increasing, to which labour churn, wage inflation and social unrest should be added, with the backdrop of rising interest rates and increased difficulty to access new capital. We believe demonstrating liquidity will be key with Jerry Maguire's proverbial "show me the money" taking the lead over the hubris of paper valuations.

We equally believe that focusing on developing portfolio companies, securing conservative balance sheets, and keeping an eye on churn and inflation to deliver growth will be tantamount to delivering further liquidity.

We believe there will be attractive investment opportunities at more reasonable multiples using more rational baseline metrics (cash EBITDA rather than multiples of ARR) with conservative financing.

Finally, the most determining change in our industry will be accessing new capital. Investors will be taking their time to consider which strategies are the winning ones in this new environment where we see a move towards quality and tangible performance as the key differentiator. We believe our firm has long been prepared for this and will thrive in this new paradigm. ●

Winner's Q&A

REYNIR INDAHL AND HANNAH GUNVOR JACOBSEN, SUMMA EQUITY

ESG-focused Nordic firm Summa Equity's managing partner and chief operating officer discuss the string of achievements that enabled the firm to win Continental Regional House of the Year and Nordic Deal of the Year at the Private Equity Awards 2022.

THE PRIVATE EQUITY AWARDS 2022

By *Hannah Langworth*

How would you describe the past year for Summa Equity?
Reynir Indahl: 2021 was an eventful year for Summa Equity. We have done a lot of exits – which have averaged a 5x return. In addition, we made quite a few new investments and raised a new fund, which at €2.3 billion is the biggest impact fund raised in Europe to date. And this was all done while the pandemic was still with us – a testament to a lot of hard work over the past year.

What enabled you to raise such a large impact fund?
Indahl: Our investments are performing strongly, which is the core of our message to potential investors. Investors have realised that impact is important in driving growth and positive development for a company – impact and financial return can be closely correlated. I also think that our strong performance on Sortera was a factor.

Hannah Gunvor Jacobsen: The new fund was 3.5 times larger than our last fund.

Has the pandemic had any effect on appetite for impact funds?
Indahl: While overall the pandemic had a negative effect on fundraising, we did attract some new LPs during this time. The pandemic has made us all better understand the threats we face from nature and alerted us to the fact that we have to take these threats seriously, which may have benefitted impact funds like ours.

Summa Equity was certified as a B Corporation in 2021, joining a growing group of companies reinventing business by pursuing purpose as well as profit. Why did you decide to become a B Corp this year and what will this decision mean for the firm?
Indahl: Our purpose since we started in 2016 has been to invest to solve global challenges and we have always wanted to benefit society. So becoming a B Corp was more about just going through a certification process than changing our philosophy.

Jacobsen: We started to report on impact six years ago. Becoming a B Corp, and other more standardised reporting frameworks such as Impact-Weighted Accounts, are giving us new ways of effectively measuring impact across our companies, which enable investors to discover any greenwashing. We think it is great to have more common standards for measuring impact.

Which of your new investments from the past year are you most proud of and why?
Indahl: That is like asking which of your children you like best! But if I had to highlight one, I would pick the first deal we did through our new growth fund: Tibber. The company, which we invested in in March this year as part of a $100m (approximately €96m) Series C round, is a Norwegian consumer-focused energy company that helps its customers save money and global resources by using green energy.

You were awarded Nordic Deal of the Year for your investment in Sortera, a Nordic environmental contractor that collects, processes, recycles and sells residual products from the construction sector, which gave the firm a great return, financially and in terms of impact. How did you know Sortera had the potential to be such a success and what did you do to make this a reality?
Indahl: We know the industry very well. Sortera was a small pure play business in its area, but the best one, and we saw it could be expanded both by geography, recycling value-add and market share.

We talked to its customers about what they were doing with their waste and invested in new ways of disposing of waste products so that the business was able to make more money from recycling these materials. We made a plan and stuck to it, but also dealt with other issues that came up.

What unexpected challenges came up and how did you solve them?
Indahl: One big issue was that the company had a close competitor that was undercutting Sortera on price. But the problem solved itself in the end because they were not delivering the waste they collected to anyone, losing this income stream and also creating a huge environmental problem. This rival company eventually went bankrupt.

What is happening at Summa Equity over the coming year?
Indahl: We started out in the Nordic lower mid-cap market, but we are transitioning to being more specialised in terms of thematic focus while expanding our geographic remit as well outside the Nordic region.

We have recently opened an office in Munich and we are about to open an office in Palo Alto, which will be a center for our North American investment activities. In the US, we have particularly focused on healthcare opportunities, but have a broad mandate to invest in a range of interesting growing companies – there is so much innovation happening on the West Coast.

Reynir Indahl

Hannah Gunvor Jacobsen

Winner's Q&A

JUSTIN PARTINGTON, IQ-EQ

IQ-EQ's Justin Partington, group head of funds, Luxembourg, explains how the firm is evolving to meet new regulatory requirements and the key hurdles that GPs face in the current climate.

THE PRIVATE EQUITY AWARDS 2022

By *Sam Birchall*

What makes IQ-EQ stand out from its peers in the fund administration market?

I would say IQ-EQ stands out from our peers because of the range of services we can offer our clients. We have the most complete service offering for alternative fund managers, especially when it comes to ESG and regulatory compliance. Over the past few years, we have expanded our ESG offering through IQ-EQ Compass, an innovative service offering that simplifies ESG compliance and helps alternative fund managers build sustainable value and reputational resilience.

Changes in the international regulatory landscape, paired with the Covid-19 pandemic, have accelerated investors' interest in sustainable investments while also increasing pressure on organisations to provide more transparency around ESG reporting. We have responded directly to this need, and have done so in a way that has produced real results for our clients.

Unlike many players in the fund administration market, IQ-EQ is led through a people-first agenda. We have a higher Glassdoor rating than our top ten competitors because we care about our employees and invest in their career progression and learning opportunities. When our people are happy, our clients also see better results.

What's more, we're experiencing rapid organic growth and gaining market share. The IQ-EQ brand is working, and our service offerings are speaking for themselves.

How has IQ-EQ evolved to meet new regulatory, compliance and reporting demands?

In line with the increasingly complex regulatory and compliance landscape globally, IQ-EQ has built expert Regulatory & Compliance teams across multiple key regions worldwide, from the U.S. to Asia, and offers regulatory hosting solutions in Luxembourg, the UK, Ireland and France.

In addition, IQ-EQ has a unique, dedicated technical team that performs a robust internal process of horizon scanning to identify upcoming changes to regulations, compliance and reporting requirements. This process assesses new regulations, as well as interpreting technical standards and fund documents to keep our people, clients and partners informed – for example via our Regulatory Eye e-newsletter, as well as face-to-face training.

Key changes are analysed and discussed internally with different subject matter experts and externally with clients, and then efficient and effective solutions are developed to suit. Within the past year or so, we have evolved a number of our offerings through this exercise, including IQ-EQ Cosmos, our investor reporting and portfolio monitoring platform, and MaxComplyTM, our AML/KYC onboarding software. In the U.S., we also have gVue, a comprehensive compliance monitoring and management solution that ensures our clients operate within regulatory requirements as well as company policies.

How is the firm responding to rising investor interest in sustainable investing?

IQ-EQ has taken a two-pronged approach to the rising interest from investors in sustainable investing.

Firstly, we have invested heavily and made some senior appointments to drive and enhance our internal ESG practices. Steps we have taken include upgrading our ESG policies and procedures and we're working towards more ambitious targets in our internal ESG goals. As part of this, IQ-EQ has signed up to the United Nations' Principles for Responsible Investment (PRI), as well as the UN Global Compact.

Secondly, we have come up with a robust ESG service offering in the form of IQ-EQ Compass to help our clients achieve ESG compliance. We spent a year researching our clients' requirements and the demands they receive from their stakeholders and then developed a high-value product, taking into account market factors including evolving international regulations. Since the launch, we have helped dozens of clients meet their ESG needs, keeping them, their investors and other stakeholders on the right track in their ESG journeys.

What are the key challenges that GPs face in the current market and what kind of additional support do they need?

At this current juncture, there are many hurdles that GPs face in the market when it comes to ESG. Firstly, there is still a lack of standardisation for the sub-asset classes within the broader private equity industry. As such, it is difficult for managers to know which data points they should be capturing. Even if there are clear data points to collect, the act of collating these in a manner in which they can be compared, analysed and meaningfully reported on is still difficult. It's great to see that IQ-EQ's Compass reporting offering has been rightfully recognised as delivering a truly tailored end-to-end solution that helps to overcome this current predicament faced by GPs.

I would say other key challenges for GPs at the moment would be fees and expenses reporting, portfolio cash flow and financing and the strong nature of evolving regulatory and compliance practices.

What trends and developments are there in the PE fund administration market?

We're always looking out for new trends and developments that could improve private equity fund administration and the services we offer. Currently, I would say there are two main developments: more data platforms and AI-driven data ingestion tools contributing to more sophisticated client portals. The future will be data-driven, and we want to make sure we're on top of trends. AI is a field that is due to increase in popularity across all business sectors, and it's no different in the private equity fund administration market.

What are IQ-EQ's plans for the future? Are there any exciting new developments on the horizon?

We're always investigating how we can improve upon our client service offerings, and at the moment, our main focus is our continued investment in data platforms and improving how our clients can access their data. In terms of locations and expanding teams who can offer these services, we're looking forward to organic expansion in Asia, which has enjoyed an impressive few years of growth and client retention.

Our long-term goal, as always, is to acquire the best, complementary businesses in our sector so that we can increase our offerings and expertise worldwide.

Winner's Q&A

FLEUR HICKS, ONEFOURZERO

The onefourzero team including CEO Fleur Hicks, discuss the firm's growth journey and how it has shaken up due diligence in the industry.

THE PRIVATE EQUITY AWARDS 2022

By *Real Deals team*

What is onefourzero's core offering, and how has it been enhanced over the last year or so?

Fleur Hicks: Over the last year, we've found that a growing number of firms and brands are keen to make more data-driven decisions. The types of investments in private equity are changing—companies are focusing on tech-based changes or making brands or portfolios more ethical. This new generation of partners and directors have new priorities that are changing the face of private equity as we know it. But, without access to the right data, how can firms and brands make the right decisions? That's where onefourzero can help. We're a data-led diligence firm, offering diligence and value creation services to private equity firms and brands across various industries.

Plus, to ensure that our clients can easily access data about their sector or competitors, we created threesixty, a one-stop monitoring tool that provides investors and portfolio companies with an aggregated view of any sector on demand.

Our data-driven M&A reports for investors and brands help to make decisions that affect commercial growth, marketing investment, digital strategy, operational effectiveness and international expansion. Additionally, our experienced team of analysts and commercial consultants translate large data sets into tangible, actionable strategic reports and roadmaps, assisting with delivery and execution.

Our core offering has been enhanced for our US clients because we opened an office in Boston, Massachusetts, late last year. As demand for onefourzero's data-led M&A products increases, we were pleased to expand into the US to better cater to our clients there and bring on board a plethora of talented individuals from some top consulting firms to assist in our endeavours.

What are your proudest achievements from the last year?

Hicks: Winning the 'Digital Due Diligence of The Year' award was a fantastic achievement, and we are thankful to *Real Deals* for the recognition. I couldn't be prouder of the entire onefourzero team for their hard work! What started as a dream to shake up the way diligence is done and bring it into the 21st century is now the mainstay. To be awarded for it is an incredible honour.

Scott Miller [head of US]: I am extremely proud of onefourzero for winning the 'Digital Due Diligence of The Year' award. These awards validate the incredible efforts of the onefourzero team and the vision we have all been working towards. Digital data and our methods enable us to unlock powerful insights, and we have been honoured to work in partnership with our many clients to maximise this value.

What has set onefourzero apart from competitors in the last year?

Jordi Mercader [commercial analytics director]: We are fast and flexible in starting new projects. However, this does not compromise the data we provide. Our deliveries are of the highest quality due to our robust data analysis as we use over 1,500 data sources, which are rigorously aggregated, standardised and analysed to answer key commercial questions. onefourzero is changing the way diligence, performance monitoring and value creation are approached within private equity. For firms wanting to find out what is happening in their industry quickly, threesixty is the solution.

Are firms requesting different types of diligence than they were last year?

Hicks: We are finding that onefourzero is increasingly getting commissioned by LPs, which is an interesting twist. They are validating some of the hypotheses of the GPs or coming to GPs with prospective target assets or asset groups. This marks a shift in the dynamics that we haven't seen before. We're also being commissioned by banks and pension funds directly to do market mapping and validate target asset diligence—this may indicate that the pressure on GPs is increasing, especially when you consider that some banks are creating their own equities divisions.

Additionally, since the pandemic, ESG is becoming more relevant for investors looking to build sustainable, balanced portfolios. Recently, we've been asked if we provide ESG scores. However, ESG is more than a score, so we recommend working in partnership with an ESG-focused firm. ESG considerations penetrate all of our diligence and value creation streams. Plus, I've always thought that it should be EESG. While ethical considerations are implied, do we think it needs to be explicitly included in light of recent socio-political trends? Firms are making decisions based on morals and ethics, and this should be explicitly acknowledged as part of ESG.

Tell us about a deal or a couple of deals made in the last year that you're particularly pleased with.

Corey Hamilton [junior commercial analyst]: In September 2021, we supported Elysian Capital's investment in D3O. We conducted early-stage commercial diligence of D3O, an innovative company that creates pioneering protective products used worldwide by consumers, military personnel, athletes and industrial workers which traditionally operated offline. We investigated market demand and growth, focusing on brand resonance through search and social mentions. By focusing on these mentions, we could answer several essential questions, such as what is driving changes in consumer demand, engagement and sentiment, how customers and searching, visiting and engaging and the potential for achievable growth. We are particularly pleased with this project because we did the initial diligence alongside value creation consulting in a space outside of where we are typically seen to operate, consumer and ecommerce.

We also worked with MMA, a digitally-native business that is fully reliant on the strength of its acquisition channels and understanding the true TAM of its verticals. We used search behaviour to isolate demographics and build digital targeting strategies that directly feed into leads and revenue for the business. The project involved validating growth plans, market size and digital capability to capitalise on opportunities in the wake of investment. To summarise, onefourzero can help established digital players alongside the traditionally offline businesses, such as D3O.

How did these deals differ from previous ones? What made them stand out to you?

Mercader: In the past, we've mostly supported private equity firms. However, we're increasingly working with brands as part of their M&A expansion strategies. We're also working with more healthcare firms. For example, we recently helped a UK healthcare brand assess the acquisition of another healthcare brand to help them increase the size of its market share.

Deals in brief

Hg exits MEDIFOX DAN for $1bn

Hg has sold MEDIFOX DAN to trade for c.$1bn. Founded in 1994 and headquartered in Hildesheim, Germany, MEDIFOX DAN is a provider of software solutions and services to care and therapy providers. Hg first backed the business in 2018. During the holding period, the business has expanded its product and service offering, entered new segments, strengthened the wider management team and invested in its system landscape and digital sales capabilities. The transaction sees MEDIFOX DAN sold to ResMed, a cloud-connected medical device SaaS provider.

TMT, SPAIN
Target Aire Networks
In Ardian
Out Magnum Capital

Ardian has acquired a majority stake in Aire Networks from Magnum Capital.

Based in Elche, Alicante, the business was founded in 2002 and provides telecommunications services for operators and companies, offering connectivity, digitalisation and digital transformation services based on cloud and neutral fibre. The company has a significant market footprint in Spain and Portugal, and is developing an international expansion plan.

With Ardian's support, the telecommunications company will continue to drive its growth, with the aim of becoming the European market leader.

The acquisition was made from Ardian's latest buyout fund. The company founders will maintain their stake in the company.

The transaction is subject to customary closing conditions, including obtaining regulatory approvals.

MANUFACTURING, FRANCE
Target Nutravali
In CAPZA
A Oderis, PwC
C Indefi x Singulier, OC&C
CF Sycomore Corporate Finance
D Crédit du Nord, Société Marseillaise de Crédit, LCL, Arkéa
L Moncey, Hogan Lovells

CAPZA has acquired a significant stake in Nutravalia, a French laboratory specialising in food supplements and parapharmacy products.

Founded in 2015, Nutravalia designs, develops and markets products dedicated to wellbeing and beauty, including food supplements, cosmetics and shampoos.

Within the business is its two specialised brands - hair care line Luxéol and slimming product Anaca3, both of which are sold at major pharmacies and online.

Based in Mougins, France, Nutravalia expects to achieve a turnover of c.€45m by 2022. The business has recorded strong growth of over 54 per cent per year on average since 2015.

With CAPZA's investment, Nutravalia plans to accelerate the development of Luxéol in France, to launch the brand internationally, starting with Spain and Italy, and to consolidate the position of Anaca3 in France.

CAPZA was advised by Oderis (financial due diligence), Indefi x Singulier (strategic due diligence) and Moncey (legal, tax, fiscal and social due diligence).

The vendor was advised by Sycomore Corporate Finance (M&A), Hogan Lovells (legal), PwC (financial and tax due diligence) and OC&C (strategic due diligence).

Financing was provided by Crédit du Nord - Société Marseillaise de Crédit, LCL and Arkéa.

PHARMA, UK
Target CatSci
In Keensight Capital
CF Baird

Keensight Capital has invested in CatSci Ltd, a contract research organisation (CRO) supporting top tier global pharmaceutical companies to deliver life-changing therapeutics to patients.

Headquartered in the UK, CatSci was formed in December 2010 from a spin-out of AstraZeneca's Catalyst Screening Facility by five founders.

The company serves emerging, mid-sized, and large pharma companies and has six operational laboratories across two UK sites fitted with the latest high-end equipment.

Keensight Capital will invest alongside the founders, senior management, and employees. Investing behind CatSci management, Keensight will support continued growth of the core business via capability and site expansion, as well as the development of GMP capabilities and the expansion of its offering in oligonucleotide services.

Keensight Capital will bring its expertise and successful track record of investments in the CRDMO2 space, with the ability to help accelerate growth through accretive M&A.

Keensight was advised by Baird (corporate finance).

TMT, NORWAY
Target Visma
In CVC Capital Partners

CVC Capital Partners has acquired Visma's digital transformation business.

Visma's IT consulting business, has been a part of the Visma Custom Solutions division. It is focused on digital transformation, and provides mission-critical IT solutions and data-driven technologies across the Nordic region and Lithuania. The business serves 8,000 customers in the private and public sector.

The new company's projects will span the software and app development lifecycle, leveraging capabilities in GovTech, analytics, cybersecurity and cloud.

A key rationale for the transaction is that both Visma and the new company can achieve even stronger growth as two separate businesses.

The transaction further streamlines Visma as a key European provider of mission-critical cloud software.

After receiving strong interest in the business from potential buyers, CVC secured the investment via a closed auction process with a selected group of interested parties.

Visma Custom Solutions has been growing 22 per cent annually on average over the last five years, to €280m in revenues in 2021, making it one of largest digital IT services companies in the Nordics.

CVC will support the new company's existing management team and employees to grow and develop its market position through both organic growth and future acquisitions, under a new brand.

TMT, UK
Target Blis
In LDC
C PwC, Moelis & Co
CF GP Bullhound, Deloitte
D OakNorth Bank
L Browne Jacobson, Fox Williams, Eversheds

LDC has made a significant investment in Blis, a global programmatic advertising company, to accelerate its international growth plans.

Blis is an audience-first platform that doesn't rely on personal data, using consented location data combined with anonymised data sets instead. The platform has an international team of more than 240 people.

Blis has grown rapidly over the last five years, with revenues rising to c.£60m this year.

LDC, which is backing the existing management team led by CEO Greg Isbister, will support Blis' growth plans to invest in new product development, broaden its service offering and expand the team across Europe, the US and Asia-Pacific. LDC's investment will enable Blis to double its headcount over the next few years.

LDC was advised by GP Bullhound (corporate finance), Browne Jacobson (legal) and PwC (commercial and financial due diligence). Blis was advised by Moelis & Co (corporate finance) and Fox Williams (legal). The management team were advised by Deloitte (corporate finance) and Eversheds (legal). Debt facilities were provided by OakNorth Bank.

MANUFACTURING, LITHUANIA
Target INTRAC
In United Partners Investments
Out BaltCap
CF Aureus Capital Consulting

BaltCap has exited INTRAC to United

KEY:
D Debt
MZ MEZZANINE
NC Newco
B Broker
CF Corporate finance
L Legal
A Accounting
C Commercial
T Technical
MG Management
I Insurance
P Property
EV Environmental

A round-up of deals from the past few weeks.

Partners Investments (UPI). INTRAC Group is a distributor of machinery for forestry, construction, agriculture and industry in the Baltics.

As a result of the transaction, UPI will acquire 100 per cent of INTRAC Group, including shares of Nalka Invest and minority shareholders.

INTRAC Group is an exclusive importer and distributor of heavy machines in Estonia, Latvia and Lithuania.

The group represents John Deere Forestry, Manitou, Doosan and Case, Bomag and Massey Ferguson, as well as other brands.

The transaction was advised by Aureus Capital Consulting.

RETAIL, SPAIN

Target Facundo Group
In Artá Capital

Artá Capital has acquired Facundo Group, a Spanish company in the snack food space.

Facundo produces branded snacks and has a long-standing presence of over 75 years in the Spanish consumer market. The group has a portfolio of iconic and well regarded brands including Facundo and Chaskis.

Under the leadership of its founding family, the small rural Spanish business has grown to become one of the most recognised Spanish snack brands.

The founding family will continue as shareholders, with Artá Capital driving the business' next stage of growth.

The business will have a specific focus on the development of new innovative and healthy products and expansion into new geographic regions.

Artá will also seek to consolidate the fragmented market, pursuing multiple M&A opportunities.

AGRICULTURE, UK

Target Spaldings Limited
In Inspirit Capital
D FRP, Leumi ABL
L BDB Pitmans
I European Valuations

Inspirit Capital has carved out Spaldings Limited from Japanese conglomerate, Marubeni Corporation.

Established in 1956, the Lincoln, UK-based business is a distributor of agricultural and groundcare equipment, with a £30m turnover.

The competitive debt auction process, which began in January this year, raised £10.75m in asset-based finance from Leumi ABL, to support the purchase and ongoing working capital requirements.

Investing via Inspirit Fund I, Inspirit has assumed ownership with immediate effect, and plans to support the business via organic and inorganic growth.

Inspirit Capital was advised by FRP (debt), BDB Pitmans (legal), European Valuations (collateral review) and LSH (property).

BUSINESS SERVICES, NORWAY

Target MaskeGruppen
In FSN Capital

FSN Capital-backed OptiGroup has acquired 100 per cent of the shares of MaskeGruppen AS from Maske Holding AS.

Based in Norway, MaskeGruppen is a full service distributor of facility supplies, healthcare products and industrial packaging. The company recorded a turnover of NOK 1.2bn in 2021. The business will complement and strengthen OptiGroup's service offering for B2B customers.

The deal is in line with OptiGroup's strategy to develop the business towards a key position in attractive market segments in the Nordic region. MaskeGruppen will become part of OptiGroup's Business Area Facility, Safety & Foodservice, and will continue to operate under its current brand Maske.

The acquisition, which is subject to approval by the Norwegian Competition Authority, is expected to be completed in the coming months. The purchase price has not been disclosed.

With these businesses, FSN aims to create a European leader in the B2B distribution market and target an IPO within three to four years.

BUSINESS SERVICES, FRANCE

Target WiiSmile
In Eurazeo

Eurazeo has invested in WiiSmile, alongside the company's management team.

Founded in 2001, WiiSmile targets more than 400,000 French SMEs in need of tools and services that can help them attract, motivate and retain employees. Businesses and their employees are provided with a full range of benefits usually available only to employees of large companies, including a dedicated travel agency, a discount ticketing service for entertainment, and sporting events.

In 2021, the company generated annual recurring revenue of approximately €18m, and has delivered growth higher than 25 per cent on average in recent years.

Through its investment, Eurazeo will support WiiSmile in accelerating customer acquisition among SMEs in particular and will work alongside the company to build its capacity for innovation, by helping with the development of new services, the creation of new partnerships, and acquisitions of specialist players.

ENVIRONMENT, BELGIUM

Target Lisam Systems
In Keensight Capital

Keensight Capital has backed Lisam Systems, a provider of environmental, health and safety compliance management software solutions and services.

Headquartered in Belgium, Lisam Systems addresses more than 2,000 clients across a number of industries worldwide.

Keensight first made contact with the business six years ago. The firm plans to support the business through its next stage of growth, via organic growth, developing its platform through R&D and strengthening its commercial and marketing strategies.

For information on every private equity firm's portfolio, please visit: realdeals.eu.com

TMT, UK

Target Digital Barriers
In 3i Group
L Ropes & Gray

3i Group has backed Digital Barriers, an internet of video things (IoVT) surveillance and security products provider. Headquartered in the UK, Digital Barriers allows live streaming over low-bandwidth environments, including cellular body worn cameras.

3i has acquired a stake in the business, alongside existing minority shareholder Volpi Capital.

The investment will expand its product offering, move towards a subscription based model and broaden its customer base.

3i was advised by Ropes & Gray.

TMT, NETHERLANDS

Target Bizzdesign
In Main Capital Partners

Main Capital Partners has made a growth investment in Bizzdesign, an enterprise architecture software company.

Founded in 2000 and headquartered in the Netherlands, Bizzdesign provides a cloud platform, which helps customers with complex digital business changes, by giving them insights to increase the success rate of business transformation and drive strategic execution.

As part of the transaction, Main Capital VII has acquired a majority stake in the business. The GP will assist to develop the company's market position, expand its global footprint and make strategic add-on acquisitions.

SOFTWARE, BELGIUM

Target Trustteam
In Rivean Capital
Out Ardian

Rivean Capital has acquired a majority stake in Trustteam from Ardian Expansion.

Headquartered in Belgium and founded in 2002, Trustteam is an IT managed services provider. The one-stop-shop offers its French and Belgian SME customers a full spectrum of IT services and equipment, cloud, connectivity, cybersecurity and software solutions.

Ardian first acquired a majority stake in the business in 2018, and has supported its management by completing six add-on acquisitions, as well as driving further organic growth since.

During the four year holding period, the business' revenues tripled.

ENGINEERING, CZECH REPUBLIC

Target Stangl Technik
Out Genesis Capital, Avallon MBO

Genesis Capital and Avallon MBO private equity funds have sold their stake in Stangl Technik Holding to SPIEs.

Stangl Technik Holding, is a provider of engineering and technical building services in Poland and the Czech Republic.

The exit comes from Genesis Private Equity Fund III (GPEF III) and Avallon MBO Fund II.

In 2018, the funds acquired a majority stake of Stangl Technik (formerly EQOS Energie Česko and EQOS Energie Polska) in a carve-out from a European corporate group specialising in the electrification of networks.

The management team became minority shareholders and played a key role in the transition into an independent company with a stable client base and culture of continuous improvement.

During the four-year hold period, Stangl Technik Holding reaffirmed its position among a few key players in the Czech and Polish markets.

BUSINESS SERVICES, UK

Target VIMA Group
Out Chiltern Capital

Chiltern Capital has exited its stake in VIMA Group to US technology and engineering corporation KBR for around £75m.

VIMA Group, previously known as IMD Group, is a provider of digital transformation solutions, that operates across the public sector, with a focus on defence and critical infrastructure. The business offers services in data analytics, cyber assurance, business analysis and transformation, and project, programme and portfolio management.

Chiltern backed VIMA in August 2019 and worked with the management team to implement a growth plan to develop the business.

With Chiltern's support, VIMA invested heavily in developing its digital transformation service offering and capabilities, and in growing and developing its diverse team.

TMT, UK

Target Plimsoll Productions
Out LDC
A PwC, Deloitte
C CIL
CF Houlihan Lokey
L Osborne Clarke

LDC has exited its investment in Plimsoll Productions to ITV in a deal that values the company at £131m.

Plimsoll is an independent television production company that specialises in wildlife, documentary and factual entertainment programmes. Headquartered in Bristol, the business also has offices in Cardiff and LA and has produced over 70 series for broadcasters including Netflix, Disney, Apple and Natural Geographic.

LDC initially backed Plimsoll's management team in 2019 with a minority investment that valued the company at c.£80m.

Since LDC's investment, the company has invested in its natural history and documentary programming, launched a factual drama division and pursued further growth, both organically and through acquisitions.

Following the sale to ITV, Plimsoll will remain an independent brand and the existing management and creative teams will continue to run the business.

LDC and Plimsoll Productions were advised on this transaction by Houlihan Lokey (financial advisory), Osborne Clarke (legal), PwC (financial due diligence), CIL (commercial due diligence) and Deloitte (tax structuring).

PEOPLE

17CAPITAL

17Capital has appointed **Claire Hedley** as ESG director.

Hedley joins from Goldman Sachs Asset Management, where she led its ESG Client Strategy Group in London. She first joined Goldman Sachs in 2007 as an analyst.

In her new role, Hedley will report to Augustin Dehamel, managing partner and co-founder at 17Capital.

YFM EQUITY PARTNERS

YFM Equity Partners has made a double promotion. **Helen Villiers** is rising to investment director and **Ben Pitt** is taking on the role of investment manager.

Having joined YFM as an investment manager in June 2019 after five years with Grant Thornton, Villiers has become a central figure in originating, evaluating and executing new investment opportunities, including the primary buyout of fire and electrical compliance specialist RGE in April last year.

Villiers also represents YFM on the board of global aviation services provider ACC.

Pitt joined YFM as investment associate last year after four years with EY.

Since joining, he has worked to support the origination and execution of new investments including the £3.5m growth capital investment in developmental governance platform Quality Clouds and the complex acquisition of Explorer UK by DSP, an existing YFM investment, to become one of the largest Oracle partners in the UK.

LDC

LDC has appointed **Alex Bexon** as ESG director.

Bexon joins from Deloitte, having spent 10 years within its ESG advisory practice.

In his new role, he will support the portfolio management teams as they pursue their ESG ambitions, from initial investment to exit.

BRITISH BUSINESS BANK

The British Business Bank has appointed **Louis Taylor** as its CEO, starting on 1 October.

Taylor steps into the role, replacing the current interim CEO Catherine Lewis La Torre, who began her tenureship in September 2020. During her time, the government took the time to map out the next phase of the Bank's development, while seeking a permanent successor.

Taylor is currently CEO of UK Export Finance, the UK government's export credit agency. Prior to this, he had a career in banking and corporate finance, serving at Standard Chartered Bank and JP Morgan.

SOVEREIGN CAPITAL PARTNERS

Sovereign Capital Partners has appointed **Luke Parvin** to its investment team.

Parvin will be focused on the business & technology services sector. His appointment follows that of Philipp Zimmerer, investment manager who also joined the team to further support Sovereign's capability in this space.

Parvin joins Sovereign from corporate finance advisory firm Alantra where he primarily worked on technology M&A advisory. Transactions included working on the buyside of Sovereign's acquisition of Actica, the digital transformation, cyber security and technical consultancy services business. Prior to this, he was with PwC where he qualified as a chartered accountant.

JOLT CAPITAL

Jolt Capital has appointed **Stanislas Subra** as general partner.

The new recruit joins the firm with deep knowledge of institutional investors and capital markets, as well as expertise in the field of digital health.

Subra joins Jolt after 12 years at MACSF group where he was a senior investment manager on the equities and derivatives, private investments team. He specifically focused on following tech stocks in Europe and the US and opened the firm's venture capital practice in 2013.

As an investor, he has deployed over €400m, half in fund-of-funds, and the other half in 30+ direct participations.

Before joining MACSF, Subra started his career as a real estate investment analyst at BPCE Real Estate.

TRUE

Consumer-focused investment firm True has made two new hires.

Mike Martin joins the team as principal. Prior to joining True, Martin headed up Sky Ventures, as part of his 12 year tenure at Sky. In his new role, Martin will lead the team, alongside fellow new hire **Joe Seager**, who joins the venture team as principal.

Seager joins from Virgin, having served in its corporate strategy and development team. He brings to the role a consultancy background, and a personal interest in crypto and health and fitness.

TITANBAY

Titanbay has appointed **Mark Adams** as chief product officer.

In his new role, Adams will lead on strategic product direction for Titanbay, defining the long-term vision and objectives for its platform and related products, and working alongside the leadership team as they develop and refine their client offerings.

Most recently, Adams served as chief product officer at Mobysoft, a tech provider of cloud-based predictive analytics and PE-backed scale-up. He has also previously worked at UBS Investment Bank as an executive director, leading product management for global sales technology.

The appointment comes as the business continues to scale its product management capabilities and highlights the continued growth of the investment platform's senior team.

FRP ADVISORY

FRP has expanded its team in Southampton with the appointment of **James Prior**, as a restructuring advisory director, and **Liam Burrows** as insolvency manager.

With more than 14 years' experience, Prior has spent his career providing restructuring advice to SMEs, owner-managed businesses and large corporations on the south coast and throughout the UK.

His experience spans a broad range of sectors, including construction, real estate, healthcare, leisure and hospitality, as well as logistics and financial services. He has advised businesses, lenders and government agencies on matters that cover all stages of the corporate lifecycle.

Burrows joins the FRP team with more than nine years' experience encompassing a full range of corporate and personal financial restructurings.

At FRP, Burrows will work with FRP colleagues in Southampton and across the firm's UK office network to manage the restructuring case portfolio, helping to maintain stakeholder communications, and to ensure that cases are progressed efficiently and in line with regulatory requirements.

The appointments follow the launch of FRP's Southampton office, which opened in March this year and is led by restructuring advisory partner Sandy Kinninmonth. The office has given FRP an on-the-ground presence in the region and Prior will work closely with the team to support businesses across the southern region. ●

Vulture

Stall stalker

As the industry descended on Berlin for this year's long-awaited SuperReturn, fund managers had one objective on their mind: LPs.

Challenges in the current fundraising market meant that the conference felt more like a feeding frenzy than a networking event, and as the gates opened and managers rushed to grab their passes, the hunt for investors was on…

Out of pure fear, investors began hiding their badges so as not to be targeted by the salivating fund managers looking for fresh capital. Everywhere you looked, name tags were being submerged in jacket pockets and hidden by tactfully placed ties, while managers — growing more desperate with each passing day — demanded to see them.

The Old Bird spotted one LP cowering in the corner who likened the situation to being "a small fish in a pond filled with hungry sharks."

They were not the only traumatised LP. Another revealed to Vulture that they had been enjoying a nice lunch when the hairs on their arm suddenly stood up as the distinct feeling of being watched washed over him. Sure enough, when he turned to look behind him, a pair of eyes belonging to one fund manager locked into his gaze. Terrified, the LP ran to seek refuge in the nearby bathroom, but like a scene out of a horror movie, when he opened the cubicle door, the GP was standing there…waiting.

Dancefloor heroes

The last few months have truly been a season for celebration — from award shows, dinners and summits to conferences and summer parties. The Old Bird is exhausted, but would like to take this time to give a special mention to the attendees of the last awards evening, hosted by our sister publication The Drawdown, who took full advantage of the dance floor that was rolled out and boogied till the early hours of the morning. If Vulture had feet, they would be bleeding from trying to keep up.

Serenading secrets

For those that attended the highly anticipated and secretive karaoke night at SuperReturn believing that you would be safe from the prying eyes of the Vulture — think again. The memories of every partner, managing director, advisor and associate that got up and sung their little hearts out will be forever burnt into Vulture's memory. Who knew the industry had such talent — especially after seeing a particularly enthusiastic group of private equiteers belt out the lyrics to "Common People" by Pulp word perfectly. And no, the irony of this was not lost on the Old Bird. ●

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