India GPs have come to adopt better portfolio management practices: Pantheon's Lim

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Pantheon Ventures invested in Indian general partners (GPs) in the mid-1990s before stepping back from the country as early returns did not impress the global private equity, infrastructure and real assets fund investor. After re-entering India in the mid-2000s, the firm is now looking at making primary and secondary investments in venture capital and private equity as well as co-investments alongside some GPs.

In an interview with VCCircle, Brian Lim, a partner and head of Asia and emerging markets teams, talks about Pantheon's strategy in

India to invest in mid-market companies and its expectations from GPs. Globally, Pantheon manages assets of over $47 billion, of which $37 bn are in private equity via primary and secondary investments and the rest among real estate and infrastructure. It also has a fledgling co-investment portfolio alongside GPs. Edited excerpts:

What is Pantheon's strategy for India?
Our strategy is to invest in mid-market companies. For this, we invest in funds and make co-investments alongside our GPs.
We think domestic consumption can provide attractive opportunities for private equity and so that is a key focus for us. We also favour business services, information technology (IT) services, financial services and healthcare.

How would you describe your returns from India?
We have been investing in India since the mid-1990s. The early returns from the 1990s were a little disappointing so we de-prioritised investments in India at that point. The private equity landscape has changed since, and we re-entered India in mid-2000s, building a number of strong GP relationships. We've executed on primary funds, secondaries and co-investments.

In general terms, I would say that as regards Indian venture capital, a reasonable proportion of returns are yet to be realised, while as regards PE, the realisation flow has been firmer as have distributions to paid-in capital.

Going forward, will your allocation change to more direct investments?
We plan to invest alongside our GPs, via co-investments, not compete with them. We see India as a strong growth market and currently have a few dozen domestic companies in our portfolio, via funds and co-investments.

Would you look at growth or buyout funds? Do you invest in first-time fund managers, too?
A lot of growth private equity funds have moved towards control or buyout strategies — we will likely have a mix of both strategies via

our GPs. We have also invested in first-time funds launched by experienced managers.

Our preference is the mid-market segment. We think valuations are looking interesting now and we are looking to find opportunities in quality domestic enterprises via strong GPs.

One key area we are looking at is encouraging strong implementation of ESG (environmental, social, and governance) compliance in our GPs.

Are LPs sensing that the management fee of GPs has become more competitive?

One aspect of PE that institutional investors are increasingly focused on is making sure that the spread between gross returns and net returns is minimised. That means that fee levels need to be competitive.

There is also an element of portfolio management that comes into play here. We have seen a few improvements in how GPs in India have come to adopt stronger portfolio management practices.

One of them is making sure that they achieve a high level of invested capital. Some GPs use recycling of capital as a way of increasing those invested levels, especially if they have been able to generate early exits and are reinvesting some part of those early realisations back into the funds.

Some of them have deferred taking fees out of the funds till they make investments — they are making sure that the management fee clock doesn't start prior to the first investment of the fund. I have seen positive trends on better portfolio management from fund managers in India.

Are you looking at new asset classes, such as credit funds?

Globally, in Europe and the US, we do invest in credit, infrastructure and real estate. We don't do that in India yet, but perhaps over time this is something that will change as the market evolves.

On the credit side, we have exposure to many non-banking financial companies (NBFCs) via funds and co-investments

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