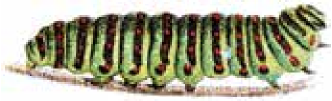
The Class of 2020

While 2020 will always stand out for obvious reasons, when it comes to the way in which private capital funds are operated, this has undoubtedly been one of the most transformative years. With that in mind, we spoke to a cross-section of industry practitioners to find out what they learnt this year.



What do you think will be the lasting impact of the pandemic on private equity?
Francois Aguerre, partner, co-head of origination, Coller Capital: We expect private equity investors and managers alike to use this time to focus on portfolio and risk management. We foresee investors continuing to reshape their portfolios around the best performing managers. For some GPs their portfolios will need to be restructured around assets that will benefit from the post-Covid environment.

Robin Bailey chief operating officer, Pantheon: Quite a few actually! Mainly, a distributed working model whereby firms generally adapt to a hybrid of remote blended with office-based patterns. Firms may also become more open to external service support models if they have traditionally relied upon in-house provision. Second, out of tragedy and disruption often springs good, and in the case of the Covid pandemic, that good is the many examples of social and community engagement that GPs across the global have initiated. And last but not least, I think firms may reassess that when recruiting, talent does not need to be local.

Matt Craig-Greene, CMO, managing director, MJ Hudson: One would expect to see greater scrutiny on leverage levels in buyouts, although experience tells us that this may be short-lived. The more lasting impact is likely to be cultural – the realisation that some things can be done more efficiently from a home office – and that some things, conversely, really cannot. Puzzling out which is which and then implementing the policies to leverage that knowledge are going to be key challenges (and opportunities!) for operations teams at GPs, for some time to come.

Yuriy Shterk, chief product officer, Allvue: Moving forward, we will be able to use technology better for various forms of communication. Whether it is communication with investors or due diligence performed by a deal team, we now have the advanced capabilities to do this without the need to be in the same room. In addition, the updated reporting solutions in place will allow for different ways to analyze the data coming in from different sources and keep all interested stakeholders abreast of the latest information.

What have been the most productive changes driven by the pandemic?
Francois Aguerre: The pandemic has seen an acceleration of the fourth industrial revolution. The combination of a necessary and rapid change in culture, enabled by technological change, has seen industries and businesses jump ahead by many years in numerous areas, ranging from working practices through to the record speeds of developing new vaccines.

Robin Bailey: Embracing automation and eliminating paper-based practices; and the rapid integration and deployment of collaboration platforms to facilitate global remote working. Another observation is that, as we saw in the wake of the GFC, clients' expectation of timeliness and transparency increases, never recedes, but instead resets the bar. The demand upon fluid communication of information and data rises commensurately. Closer to home, I'd say that leadership has become highly focused– rather than trying to achieve everything, there is instead clear strategic prioritisation.

Matt Craig-Greene: I think it is still too early to say whether any changes in investment practice or financing are going to be a) long-lasting b) good or bad for the industry. However, the cultural changes that have been, to a degree, forced on industry constituents, may mean that some of the barriers holding back greater inclusion in the industry will have been weakened: those needing increased flexibility should find it easier to come by. This is not to say, of course, that the pandemic has cured the challenges of diversity, inclusion, and equality – but it may have helped a little, and that is a good thing.

Yuriy Shterk: Increased use of the technology to collect, process and analyze the data coming in from multiple sources (portfolio companies, fund administrators, investors, etc), and using that to produce accurate and comprehensive reports and information needed to power timely decisions. More GPs have realized that they can no longer rely on Excel-based spreadsheets to manage their data and have taken the proper steps to organise their business more efficiently.

What has been your biggest learning in 2020?
Yuriy Shterk: In this volatile market environment, stakeholders more than ever before needed quick access to their data in order to explain and answer LP questions.

Matt Craig-Greene: Sometimes, just when things look like they are going to grind to a halt, for good, they are just collecting the resources to fuel a tremendous, surging comeback. If one believes in the essential importance of funding the growth of private companies, one has to have faith that it makes sense, as a concept, whatever economic or other environmental challenges exist. There may be a dislocation. There may be a pause. But eventually, the need for the wheels to turn again will become irresistible. Private equity will find a way.