

Why the New Normal Is Overplayed

The significance of the ‘new normal’ is overstated, but a desire for improved efficiency in private equity fundraising will make some changes stick

If you're like me, if someone asks me again how I'm adjusting to the new normal, I'm going to punch them in the nose. Hopefully, you're not like me and are more tolerant and less pugilistic. And I'm not really like that either, but sometimes it's fun to dream. The point is, I don't believe that this is the new normal. Once we are all able to travel safely again, we will. And most of us will even return to the office. Humans are social beings and we crave human interaction. As much as I've enjoyed working in my sweats and doing Zoom calls wearing a dress shirt and Bermuda shorts, I miss the interpersonal connection of the office and the road – seeing real people in the flesh, not on the screen with a fake office background or of a living room clearly Photoshopped from Architectural Digest.

There's a certain energy and stimulation that comes from a change of scenery and interacting in person with those you know, talk to on the phone, but don't get to see with regularity. However, it's more than just the energy and stimulation that a new environment generates. Simply said, there is just no substitute for meeting with people in person, sharing stories over drinks and dinner, or catching up on each other's personal lives. Even road trips where you and others must endure flight delays and post-midnight arrivals at hotels create a certain camaraderie and esprit de corp that seeing someone's toddler in their diaper in the background, though adorable, can't replace.

I'm not saying that things won't change – and some things, dare I say it, will be the new normal. In a Capstone Partners global survey of LPs conducted in October 2020, we learned that 76% of LPs were able to complete a full virtual underwriting of a GP they met pre-COVID. More surprisingly, we found that a startling 37% had completed a full virtual underwriting of a GP they had not met in person, ever. Many LPs feel that they were overly conservative in committing to private



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equity in the wake of the GFC, and were underweight in what became very attractive vintages. They don't want to repeat that mistake.

In 2020, LPs feel their fiduciary duty to deploy capital in what should be very strong vintage years outweighs their fiduciary duty to meet a GP in person. It should be noted that many of those same LPs who professed that opinion have been in their chairs for many years, have a robust list of GPs they know well, and haven't had to put that profession to the test. On the other hand, most LPs I talk with have amended their investment policies to allow for a full virtual underwriting, if needed, to commit to a highly desired GP. The adaptability of our industry is impressive, but I think we can all agree the current framework is less than ideal.

So what will this post-COVID world look like? I have no idea – I'm just a placement agent, not a seer. But I do have a few observations from the past 10 months. First, for fundraising, video meetings are perfectly fine for first meetings. Most fundraises require over 100 first meetings – even if the GP already has met those LPs during the last fundraising. LPs require an update on the team, the strategy, the market environment, and performance at a minimum. Roughly half of these meetings are with LPs that are very unlikely to commit to the current fund offering. Those LPs are looking for market intelligence, for competitive intelligence

on funds already in their portfolio, for curiosity's sake, or for a variety of other reasons. And not that there is anything wrong with this, it's just not necessary to hold these meetings in person. Video meetings are a time- and cost-efficient way to pre-qualify for real interest. A GP would be wise to use video conferences for its first meetings, determine who the real buyers might be, and then go see them in person. I think that is a change in how fundraising is done that will stick.

Second, virtual AGMs will become more common. Most likely, GPs will adopt a hybrid model, i.e., you can come in person if you like, or you're more than welcome just to log in to the meeting if you don't feel the need to be physically present. GPs and LPs have dedicated tremendous resources and time to organize and attend, respectively, a gauntlet of annual meetings in the spring and fall. During the months of April and May and October and November, I hear nothing but complaints from LPs that they only have three office days in the next 60 calendar days. I recognize that some of this is bravado – some of the out-of-office travel consists of a drive down I-280 from San Francisco to Sand Hill Road – but I also think it is directionally accurate. AGMs are

a huge drain on resources and attending virtually may be a good substitute. Many LPs have said they would like to attend AGMs in person every second or third year, but annual attendance, especially with groups they know well, is not necessary. This is another change in behavior I think will stick. It just makes too much sense from a time management perspective, and time is one thing we are all short of.

In summary, what we have been living for the past 10 months is not the new normal. But things will be different post-pandemic. GPs will travel less for fundraising for first meetings, and LPs will travel less for AGMs because it's more efficient.

There are two other reasons I think that the private equity community will economize on travel: how are we going to get there, and where are we going stay when we get there? Once we come out of this, airlines will be capacity constrained, more on the labor side than on the equipment. And the same thing for hotels. I just might need to invest in a few more pairs of sweats and a better fake video background.

Founded in 2001, **Capstone Partners** is a leading independent placement agent focused on raising capital for private equity, credit, real assets, and infrastructure firms from around the world.

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