

Private Equity Fund Investing in the Age of COVID and Beyond

A lasting shift may be underway as LPs and GPs re-evaluate their processes

After dealing with the pandemic for several months and with no end in sight, LPs and GPs alike are having to rethink the way they do business and evaluate new opportunities. Organizations are being forced to adapt to a virtual world, which poses challenges but also offers advantages. When the pandemic fades and things progress to a new normal, some of the changes we have seen will likely remain, and it may well be to our benefit.

A Virtual Advantage

There is an evolution in thinking among many LPs about virtual diligence on new managers. Many initially thought the pandemic would run its course in 3-6 months, which led them to focus exclusively on existing relationships and well-vetted opportunities. As it has become clear we are facing a longer-term issue with no end in sight, a growing number of LPs are becoming more open to virtual diligence processes – they don't want to miss new opportunities in what will likely be a good vintage year. With little to no business travel possible and daily commuting time eliminated in most cases, LP bandwidth to consider new opportunities and establish new GP relationships has actually increased. Virtual meetings in many cases will allow LPs to meet new GPs earlier than they otherwise would have by waiting to schedule in-person meetings.

Many LPs are now re-evaluating their due diligence processes as they seek to balance their need to access new managers with their fiduciary responsibilities, and a growing number are over the hump. LPs that have been able to make commitments to new GPs through entirely virtual processes have put a greater emphasis



Jeff Walters
Managing Director

Capstone Partners
www.csplp.com

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.

Jeff Walters is responsible for distribution and business development in the Midwestern US.

on desktop work and referencing, particularly with other LPs. LP collaboration has, if anything, increased as a result of the pandemic. One advantage of virtual diligence that is gaining popularity is splitting lengthy in-person diligence meetings into multiple sessions to address specific topics. Information can be more easily processed in increments, which can lead to more thoughtful discussions.

As the pandemic subsides, the new normal will likely include more remote working, a greater reliance on virtual meetings, and more targeted business travel. That combination should preserve greater flexibility in

LPs' schedules than existed before the crisis. And that extra time may come in handy. If history is any guide, the current economic downturn could spawn a wave of new GPs.

Timing Is Key

The fundraising process for GPs and placement agents will likely evolve as well. GPs that are in high demand have long enjoyed the luxury of not traveling during fundraising, while newer and less widely known groups have had to endure often grueling travel schedules. Outside of cities with well-developed private equity communities, travel can be inefficient and time consuming. The pandemic has taught us that virtual meetings can be very effective and, if anything, have been an underutilized tool. Placement agents and GPs may find that a virtual introductory meeting followed by an in-person, agenda-driven meeting with interested LPs a more efficient use of everyone's time. That model may be preferable to some LPs, particularly those who choose to work remotely, and has the potential to more quickly define the group of investors most likely to move forward with a GP. It would also make in-person meetings more productive and reduce time spent on the road.

GPs may want to consider providing LPs a virtual option for attending AGMs as well, as LPs with large portfolios can't realistically attend them all. A virtual option could also be a useful tool to attract new LPs in advance of a fundraising.

Improving Transparency

The pandemic has also increased GP transparency with LPs. The interim 'flash reports' GPs have provided to quantify the COVID impact on their portfolios have been well received and could be a model for improved communication going forward. Keeping investors informed on portfolio company developments, both positive and negative, is important for existing LPs and can help prospective investors in their underwriting processes.

The pandemic interrupted what had been a healthy fundraising market, but the near-term negative impact has also driven positive changes that may be long lasting. It has in many ways broadened and accelerated well-established trends and pushed us further into the future.

While direct, in-person contact can never be fully replaced, the accelerated use of technology has enabled us to respond during the crisis in a way that would not have been possible only a few years ago. Technology has made it easier for us to work remotely and offers greater efficiency in capital raises and due diligence processes. It makes it easier for GPs to stay in touch with their LPs and manage their deal pipelines as well. The pandemic has forced us all to adapt and embrace change. Some of that change will prove long lasting and work to our benefit.