

# Alternative Asset Seminar: Strategic Options for Private Equity General Partners

Seminar Key Points

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Dechert  
LLP



# Introduction

**Dechert and Houlihan Lokey's 'Alternative Asset Seminar' brought together professionals to discuss recent developments in the alternative asset industry.**

**Douglas Getter**, head of Dechert's London Corporate & Securities Group, gave the welcome address and provided an overview of the prior year in private equity.

Doug referenced some of the key themes from a recent report on the global private equity market which Dechert published in conjunction with MergerMarket — *Global Private Equity Outlook 2019*.



*Access the report by clicking on the image, or from **dechert.com***

## Key findings from the report

- It has been a successful year for private equity firms, particularly against a backdrop of uncertainty in the UK caused by Brexit.
- Niche specialisation in private equity has become the norm. The top reason cited is that specialisation gives firms a key advantage in winning auctions.
- Creative deal structures are rising in prominence as a means of coping with competition for deals and the need to pay higher multiples.
- Private equity firms are placing a greater emphasis on global diversification/expansion.
- There remains some concern over the long-term exit environment, and particularly the likelihood of achieving desired asset valuations.



Speaker



**Douglas Getter**

Partner  
Head of London Corporate & Securities Group  
**Dechert LLP**

# Keynote address:

## “The New World Order in Private Equity Asset Management”

**Peter Wilson, Managing Director and Executive Management Committee Member, HarbourVest Partners**

***Interviewed by Jeff Hammer, Managing Director, Co-Head, Illiquid Financial Assets, Houlihan Lokey***

**Peter Wilson** gave an overview of the history of HarbourVest Partners, and discussed the rapid changes in the private equity industry from the perspective of his company, as well as the changing needs of clients - who are increasingly looking for tailored outcomes and specific investment strategies.

### HarbourVest Partners

- Founded in 1982 by Brooks Zug and Ed Kane, after raising \$150 million from 22 investors.
- Managing Director Peter Wilson joined in 1996 and is one of two members of HarbourVest's Executive Management Committee. He co-leads secondary investment activity in Europe, and is a member of the HarbourVest Europe Investment Committee. Peter is also a Director of HarbourVest Global Private Equity Limited (HVPE). He also serves on several partnership advisory committees.
- Currently has more than \$50 billion in assets under management.

### Key points

- ***“Partner of choice” approach***

Mr Wilson noted HarbourVest's approach to partnering with general partners (“GPs”), limited partners (“LPs”), employees and in the communities where it operates is a core part of the firm's strategy.

Among other factors, an increased focus on environmental, social and corporate governance is part of achieving this outcome.

- ***Expansion into niche areas***

Managers will look to expand in more niche areas, such as real asset secondary transactions, private credit and work with ultra-high net worth private clients.

It is estimated that currently only a fraction of funds invested into by ultra-high net worth individuals are invested in private equity, but this has the potential to increase significantly.



### Speakers



**Peter Wilson**  
Managing Director  
and Member of the  
Executive  
Management  
Committee  
**HarbourVest**



**Jeff Hammer**  
Managing Director,  
Co-Head of Illiquid  
Financial Assets  
Practice  
**Houlihan Lokey**

- ***Fund succession planning***

Mr. Wilson outlined HarbourVest's experience with fund succession planning, and the issues which arise when fund principals transition during the life of a fund.

# Panel 1

## GP Valuations and Transactions – Succession Planning & Other Considerations

### Key points

The panel discussed the following issues:

- **Succession planning**

The need for succession planning is one of the factors leading to the creation of funds raised specifically to purchase positions in fund and other asset management companies.

Whilst this trend began as a US phenomenon, it has now found traction in Europe, and can be a particularly attractive investment due to its cashflow generation and its potential to give access to funds managed by the relevant GP.

- **The valuation of management companies**

The valuation of management companies, although similar to that of an operating company (e.g. by reference to cashflow and multiples) is made more challenging by factors unique to these businesses.

For example, the various types of cashflow that are generated (the steady management fee revenue but also the more volatile carried interest), and the structure and terms (including where in its lifecycle the fund[s] is/are) of funds managed by the management company may have considerable impact on valuation.

- **LPs' considerations and concerns when GPs are contemplating their succession**

LPs will typically be concerned with:

- stability in the fund management company;
- the reasons for the sale of management stakes; and
- the proportion of sale proceeds that will be reinvested in the management company, for the benefit of the fund.

LPs should be aware of any limited partner consent rights and key person provisions in fund documentation which they have, which may be relevant to a change of control or other sale.



### Speakers



**Robert Darwin**  
Partner – Private  
Equity & M&A  
Dechert LLP



**Cindy Ma**  
Managing Director,  
Global Head of  
Portfolio Valuation &  
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**Patrick Knechtli**  
Head of  
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**Christopher Gardner**  
Partner – Investment  
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Dechert LLP

# Panel 2

## Fund Leverage – Making Your Illiquid Assets Work Harder

### Key points

The panel discussed the following issues:

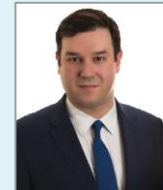
- **Capital call and NAV finance**  
Capital call finance and net asset value (“NAV”) finance are useful tools for managers, as they have various advantages:
  - investor funds are drawn down for a shorter period, giving internal rate of return benefits;
  - timeframes for accessing this finance are shorter than compared to drawing-down funds from investors; and
  - managers are able to demonstrate that they have a single source of finance in auction scenarios.
- **Best practice**  
The best practice for these types of lending, including the recent guidelines from the Institutional Limited Partners Association (“ILPA”) which encourage greater transparency and stricter parameters in the use of such financing. The panel noted that the industry was already adhering to many of the best-practice recommendations set out by ILPA.
- **Increase in the demand-side for fund financing**  
The significant increase in the demand-side for fund financing has been driven by increasing levels of assets under management, and a greater number of strategies that GPs are implementing.
- **New lenders entering into fund financing**  
An increasing number of lenders have entered the fund financing space, which has seen the emergence of ‘preferred equity providers’ and the possibility of ‘whole of life’ financing for a fund.
- **US and European markets**  
Whilst the US and European markets for fund finance have many similarities, there are key differences - foremost of which is the greater use of these financing techniques (and particularly NAV facilities) in the US.



### Speakers



**Philip Butler**  
Partner – Finance  
Dechert LLP



**Milko Pavlov**  
Director, Financial  
Advisory Services  
Houlihan Lokey



**Stephen Quinn**  
Managing Director,  
Head of Financial  
Sponsors  
Lloyds Group



**Joel Denny**  
Managing Director,  
Head of Equity and  
Fund Investment  
Solutions  
Nomura

## Panel 3

# The Broadening of the Secondary Market – The Journey from LP Portfolio to GP-Led Deals and Preferred Equity Investments

### Key findings

The panel discussed the following issues:

- ***Asset valuations as a driver of growth***

The key driver of growth in the secondary market has been asset valuations, and the level of information available about those assets has increased the willingness of investors to pay full value.

Where investors have high levels of capital to deploy, they have less time to consider assets in as much detail as smaller funds. Smaller funds are more likely to take time to consider assets outside of an auction process and work on deals on which there is less public information.

- ***Taking stakes in GP management companies***

One of the major advantages of purchasing a stake in a GP is the level of information flow that it gives an investor; in comparison to a typical LP, who may receive a quarterly report and relatively weak GP removal rights.

- ***GP-led restructurings***

GP-led restructurings allow GPs to account for changes in ownership and tidy up any historic carried interest arrangements which are no longer appropriate.

The panel also discussed the market norms in these restructurings, as increasing numbers of GPs are looking to sell minority stakes in their business.



### Speakers



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Managing Director,  
Co-Head of Illiquid  
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**Houlihan Lokey**



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**Hollyport Capital**



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# Speaker Panel

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Advisor	Deals
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JP Morgan	959
Bank of America Merrill Lynch	699
Duff & Phelps	672
Morgan Stanley	660

## 2017 Global Distressed Debt & Bankruptcy Restructuring Rankings

Advisor	Deals
Houlihan Lokey	63
Rothschild & Co.	48
Lazard	36
PJT Partners LP	35
Moelis & Co.	22

## 2017 M&A Advisory Rankings All U.S. Transactions

Advisor	Deals
Houlihan Lokey	174
Goldman Sachs & Co	173
JP Morgan	164
Morgan Stanley	132
Barclays	106

By Thomson Reuters

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