



Keynote Address

- Moose Guen, CEO, MVision

When we spoke last year you were quite bullish about the industry going forward, but you pointed out that there would still be a challenging fundraising environment. Has that been the case?

Well it has certainly been an outstanding year. But fundraising has been challenging despite aggregate fundraising volumes being up. Investors are active, but they are highly selective and are very profits-oriented. They generate tens of thousands of pages of analytics and the list just goes on and on in terms of the reporting, the requests, the reviews; you are literally producing 20,000 pages of information to look at. The current focus is to have fewer relationships but more capital deployed, which means you are looking at a situation where the average investor is looking for in the range of 30-60 relationships, but in the old days they had up to 120 relationships.

Certain [private equity] groups work much better and are able to provide what the investors are looking for. But you've got to remember that investors, within the context of having fewer relationships, are building a certain exposure of portfolio. So they are looking at certain types of names, but they'll still want to commit to a couple of mega funds, a couple of large cap funds, a couple of mid cap funds, a couple of small cap funds and so on, so there is actually a portfolio building exercise taking place.

Where is the current focus in the market?

There is a very big push towards developed economies. If you look at it in cycles, right now the main area of focus is the US. There is a huge amount of activity taking place there. As a result, developed markets, by which I mean Europe, Australia, Korea, and the Gulf countries, are very popular and are very much being reviewed by investors. There is a real comfort and a real interest in being in the developed market, with investors reviewing some general partners that have been around for 30 years.

I think emerging markets have more selective support, and investors are moving away from the BRICs. I also think it is all starting to blur a bit; it is difficult to justify China being an emerging market when it is the second largest economy in the world. Investors are looking more in the area of South East Asia, Mexico, Colombia, Peru, and selectively in Africa. But the ability to put meaningful amounts of capital to work in those markets is rather limited, because the funds that are active there are not large. It is a completely different dynamic, and a completely different type of review for investors. But investors have certain categories for certain exposures. So they are looking at Asia, but they are looking at different things from an emerging market perspective.

There is certainly an interest in the mid and small cap part of the marketplace, but there is also a real openness to new concepts. When investors are reviewing GPs that are currently in the market, they are looking for those few relationships to commit to. What you are seeing is a real interest in being able to focus and try to look for a certain type of GP that is complementary and different.

You mentioned last year there were going to be changes potentially in how firms go about their fundraising. Have you seen any of these sort of changes happen?

There are some very interesting changes taking place. I think there has been a real understanding among GPs about the kind of energy and dynamic with which they need to be running their business, so there has been a significant focus inward. In the old days, GPs were very outward orientated; they were very powerful producers of deals, but in running their own businesses, they would usually benefit from a little bit of advice. Today, however, they are fixing in-house operations and they are really creating some outstanding firms.

Do you think regulations have had any impact on fundraising?

This is a very difficult question. I think the intentions of regulations are all very good, and what is behind them makes a

lot of sense to me. However, I feel that the deployment and execution of these regulations leaves a lot to be desired. The ramifications and implications are really not being thought through as well as one would have liked, and I think the negative impact on the asset class and on businesses is much higher than people realize.

Within private equity, for example, there is extensive reporting to investors at this current time, which I mentioned earlier, but now there is duplicate reporting in certain formats to the regulators as well. Additionally, it is not a common regulator; it is multiple regulators, with each one having different requirements, as opposed to having one common requirement, which is amazing considering we are all supposed to be part of one European community. They are not quite grasping the potential confusion that is being caused due to the complexity and diversity of requests.

Have there been any key developments within the investor community, or with the relationship between GPs and LPs?

The management of the J-curve is very much a focus of investors and that is not going to go away. I think on the co-investment side, a number of investors began their process by looking at this as a way of reducing their risk exposure in terms of cost to the asset class, but it has kind of moved away from there now. What we are seeing today is the larger investors working in partnership with GPs, because for them it has become an issue of deploying capital; it is not just one of trying to reduce the fees, it has actually changed in profile, which is interesting.

On the topic of fees, I think investors have been pretty fair. They want to ensure GPs are able to run their businesses well, so we are not seeing the type of hassle or the type of fixation on fees from that perspective. But they are sensitive on alignment of interests on some areas such as the GP commitment. They do not want to see extra fees being generated for reasons they are not comfortable with.

Are there any particular strategies that are gaining a lot of momentum?

I think we are going to see a lot more sector-specific strategies emerging; investors like them. Recently there was a consumer-specific fund that was a very big success, which had been raised in Asia. There is a lot of appetite for them in the US, and I am expecting them to now occur in Europe and probably globally as well.

What is going to shoot up is the levels of commitment overall to the asset class. People are looking for alternatives, they are looking for yield, they are looking for smart investments, so from that perspective all of these categories will have growth associated with them.

What are your greatest concerns about the industry? Do you envisage any changes in dynamics between investors and GPs?

The two things that need to be addressed are access to capital and regulation. Access to capital that comes from the banking community is still a bit selective and needs to improve. The other aspect is the regulators and regulations' intentions, which are good, but we need to ensure the execution is well thought through. At the moment there are a lot of conflicting and distracting types of policies that are coming from all directions.

With regards to investors and GPs, I am sure there is a lot of change coming around. And it is all good; there is innovation. The mega investors are

looking to do more direct type of portfolio work in partnership with GPs. They are doing this in real estate, in infrastructure, in other real assets, and in private equity. It is the ability to deploy very high quality capital and really be able to do very good things in the market.

Furthermore, the teams and a lot of these GPs are well run and well energized and heading in the right direction. There are those that are little behind at the moment, but will be catching up. I am actually the most positive I have been in years now and am looking forward to the next five-year cycle.

What is your outlook for the industry throughout 2014 and beyond?

I think the next five years are going to be outstanding. I think that people are going to restructure their businesses, especially a number of the quality groups, so I think they will do extremely well and we will have outstanding GP businesses. We actually have a limited number of people in the market that meet those types of very high criteria that I was referring to earlier, but we are having a growing capital base. If you look at the amount of exits and capital being returned to investors, it is really quite stunning, and that means that the market is and will continue to be flushed with capital, and in an environment where there are fewer GPs available in terms of selection, so it is going to be an extremely attractive market.

At the end of the day, I am extremely pleased to see the adaptation and the

dynamic work being done by GPs to position their businesses and understand investors. I think the communication between investors and GPs is at an excellent level and, as a result, people will be performing to a higher standard, and we will see the types of returns and the types of activity we would come to expect from this quality. I think that will have a global impact, as it will set a best practice. Other countries will build innovation and then from that new areas of expertise, which will grow to meet this quality. I am really quite pleased about these developments.

Thank you for your time.



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