Q&A

Mounir Guen, MVision *MVision* founder Mounir Guen discusses what it takes to launch a first-time fund, why new managers provide LPs with much needed diversification and how the preparation of debut funds coming to market has changed over the years.

As LPs consolidate relationships, what are the prospects of first-time funds?
First-time funds continue to play an important role in portfolios. First-time funds have been shown to deliver good performance and LPs want exposure to that performance. All the large US pension funds now have emerging manager programmes, which are a strategic part of overall portfolio construction.

In some markets there are also access issues. LPs can't always find established managers targeting specific themes and sectors in chosen geographies, so there is interest in new managers that can fill these gaps.

Finally, it is difficult for new capital to access established GP programmes. For an investor that wants to build a private equity programme there are opportunities to gain attractive exposure to the asset class by going to the grassroots and identifying interesting teams that have come out of established GPs and are setting up their own firms.

With evidence suggesting that performance persistence is not as strong as it used to be, does that make it easier for first-time funds?
In the eyes of investors first-time funds do have a higher degree of risk, because of the unknowns. It is rare to see whole teams spinning out.

Most new firms will be made up of people who are coming together for the first time so there is risk around how they will work together. There are plenty of examples of teams made up off strong individuals who haven't been able to work together, to the detriment of the firm and investors. There is understandably concern around that.

It is also unusual for a first-time fund to have a full track record. Older LPs with robust programmes will be able to build a picture of some teams based on the GPs they are coming out of, but it is difficult for investors. LPs go through various due diligence processes as part of manager selection, and the reports aren't straightforward to write for first-time funds because track records are difficult to piece together.

Do first-time funds have to focus on specialist strategies to draw LPs?
Generalists are becoming rarer in private equity. Most GPs will have areas of focus.

What has happened in the US is that the focus has become laser specific. We are talking micro-sector here. We haven't seen this to the same extent in Europe, but new managers are coming through with strategies focused on certain themes and sectors and they are gaining investor attention.

When will an LP back a first-time fund?
It does depend on geography. In Asia there is simply a shortage of managers and there are only a handful in the top quartile so there is space for good groups to come in. In Europe we have seen firms that started out with between €200m and €500m under management develop into multi-billion euro businesses. As these firms have grown, teams within them have started to spin-out. The next generation of managers is emerging and LPs want to be part of that.

In the US investors are simply hunting talent. They are following individuals with the X-Factor and will back them when they launch new vehicles.

Timing also comes into it. If a new manager comes to market at the right time they can get traction quite quickly.

If, for example, you are a spinning out of an established manager with the manager's blessing, are in a geography where there is demand for product and are coming out at a time when other incumbent managers have come off a few tough raises then you can make good progress.

Has the strategy behind the launch of a first-time fund changed?
It is an interesting question. When I first started out the job was about transforming bankers or consultants into investment professionals. Now the work involves identifying individuals from GPs that are already in the industry and supporting them to become leaders of new firms.

We also see a lot of potential in family groups. There are some business families that have built up remarkable programmes with whole teams and substantial portfolios. There is a huge opportunity for these groups to take transformative steps by accessing institutional funding.

In the US, GPs that have grown into huge asset managers have become dream incubators for new talent and emerging managers. There is a high success rate of teams coming out of these firms.

In Europe the desire to launch new funds is not as heightened as it is in the US. It is only recently that interesting new firms have begun to emerge. This is welcome because it is where the next layer of private equity talent will develop.

A number of mid-market firms in Europe have launched "baby" funds. Does this make it tougher for new firms?
The small-cap funds that are coming to market are competitors. In Europe around 80 per cent of first-time funds are funded by US investors and in the US around 90 per cent of first-time funds are backed by US investors.

The small-cap funds of European managers, by contrast, are around 60 per cent to 70 per cent funded by their existing backers and European investors.

So first-time funds in Europe are getting support, but it would be good if more funding for these funds came from European investors.