DEPLOYMENT IS KEY
- Moose Guen, **MVision**

Christopher Elvin: In your interview last year, when asked about your predictions for 2017, you commented that "fundraising will still be exciting". Has the activity we have seen in 2017 been the level of 'excitement' you expected or has it surprised you?
Moose Guen: In some markets, such as the US and Europe, fundraising has been incredibly robust; European activity has been higher than I expected – the US was where I thought it would be. In emerging markets, fundraising is still relatively low – I thought there would be a little more activity in the new markets.

One of the things that surprised me was the positivity towards Europe. Europe really started picking up once the currency moved. There is a very deep concentration in Europe where, in the fourth quarter of 2017, I believe you have 10 funds that are on average four to five billion in size each. That is probably one of the highest amounts of capital ever raised in a year.

CE: How does the Asian market compare to the more mature North American and European markets?
MG: In the US, there are a significant number of GPs to choose from, and new GPs are being formed on a regular basis. Europe has good activity. However, in Asia, it is more concentrated. As the volume of capital that LPs would like to deploy in that region increases, the ability to deploy that capital becomes more difficult due to the smaller universe of GPs in Asia.

CE: In terms of Asia-based LPs, have you seen any changes in the geographic scope of their investments?
MG: Not really. Asia-based LPs have the same law firms and the same gatekeeper consultants, so their portfolios look similar to their peers' around the world. If you are non-US, you are probably allocated 40% or 50% US, up to 25% local markets and the remainder is Europe, with a small amount allocated to markets outside of those.

CE: When you look at historical fundraising for fund of funds vehicles, they have not seen the same kind of growth or success as other areas of the private equity market. Have you seen their business model evolve?
MG: Funds of funds are evolving their business model by consolidation and expansion. They are opening offices in all the locations where they can find concentrated pools of capital. They have been very intelligent about how they have built their businesses and they have a blended product mix of primary, secondary and co-invest.

CE: Aside from fundraising, what do you think have been the most notable developments within the industry in 2017?
MG: There were a couple of trends in 2017. One was the use of secondaries by GPs to extend investment ownership of particular assets. This is quite a new thing and can be driven by several factors. It can be driven to assist a fundraise, or to lock in a return or to generate longer-term returns. There must be comfort around the model by the investors, but it is something that is fairly new to the market conceptually. So far, it has primarily been in Europe, and I am waiting for more activity in the US.

Another thing I have seen is more GPs with multi-product strategies. That seems to be growing, especially with GPs that have become quite large – they are now raising funds that focus on smaller or complementing strategies.

CE: Do you think that is inextricably linked with deal pricing and trying to focus on assets with greater growth potential?
MG: It is more focused on GPs understanding their business and promoting their brands. I think in both situations, GPs are thinking very carefully about themselves as a business, and how they can provide investors with a robust position in terms of the potential performance the investors seek.

The other thing that we have seen in 2017 is the significant growth in direct investing by investors. That is being done alongside GPs in funds and sometimes in a sole manner. That has taken quite a significant life of its own.

CE: As a placement agent, are you having to adapt your business because of this?
MG: We deal in private opportunities, so whether structured as a partnership vehicle with multi investments or a single investment, we are still keeping our finger on the pulse of the investor's portfolio development and their focuses, and ensuring that we are able to be solution providers to the investor's portfolio needs and positions.

CE: Aside from high asset prices, what do you see as the biggest challenges for private equity in the next 12 months?
MG: A big focus for private equity in the next 12 months is one of deployment. The question is, at what rate should you deploy capital, and at what price?

LPs want to understand that their money can be deployed, their principal is protected, that they are targeting consistent, solid returns, and that they have the visibility that they would like from their relationship with a GP.

GPs should think very carefully about being able to extend their investment cycles where they can put the money to work over at least a three-year timeframe so that there is not the concentration that would come from deploying the money quickly and which can have an implication on the overall performance of funds of today's vintage.

CE: Linked to the visibility issues, ILPA have released new guidelines on the use of credit lines by GPs. As somebody sitting inbetween GPs and LPs, what is your take on the use of these facilities? Have LPs raised this as a concern and are they requesting more visibility on their use?

MG: The regulators and the investor community are definitely looking for a lot of visibility on how cash moves at a GP. They want to ensure that they understand what the money is used for and how it is being used, and they want to make sure that there is not a risk of which that they are not aware.

CE: Finally, what are your predictions for 2018?

MG: The asset class is on a particular path at the moment. I think that we are going to see continued growth in activity and we are going to see a lot more around technology and technology-related strategies. There is going to be a change in the fundamental sectors in which private equity has been involved since its formation.

The other thing that impacted us dramatically in 2017 was the US dollar. The US dollar became very strong, and since the bulk of commitments by investors are US dollar based, the US dollar returns of equivalent capital in other currencies were very hard hit. It was not until later in 2017 that the gap started to close. At the beginning and in the middle of the year, making commitments to funds in non-US currency in international markets and new markets was hard to present to committees.

The world is becoming very small and GPs are active globally now. Does that mean that over time we will be polarizing to a smaller group of GPs than in the past? The other thing is that the underlying structures that are being used by GPs are now being creatively reviewed. We will see continued activity from the regulators on a clear path of trying to ensure that there is transparency and clear communication. We will also see implications from some of the new ILPA guidelines that will again touch on visibility and disclosure.

As investors are looking to have fewer GP relationships with more capital, and are looking to access certain GPs or markets, that access is going to become a real problem in 2018. Investors will need to think carefully about how they can position themselves out of fundraising cycles. When a GP which an LP would like to have a relationship with comes to market, the LP's ability to move quickly in their full due diligence by having pre-selected the GP to ensure that they get a commitment will become crucial.

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