

BUYOUTS

LPs face allocation pressures in fundraising surge

July 26, 2016 By [Sam Sutton](#)

- Fundraising market similar to pre-crisis
- LPs showing greater discipline in allocating top-tier GPs
- Investors identify core managers to ready for recession



After a half-decade of strong distributions, limited partners face pressure to commit larger amounts to private equity to maintain their allocations, according to panelists at the *Pension Bridge* conference in Chicago.

“There’s a temptation to really accelerate because you have to hit your target allocation in the asset class. That’s something you have to be cautious of,” said **Paul Yett** of **Hamilton Lane**, speaking on a panel. “I think it’s better to under-allocate than to really hit the gas pedal in this market.”

Yett suggested that LPs maintain a steady commitment pace to forestall any attempt to time the market, a suggestion echoed by **T. Bondurant French** of fund-of-funds **Adams Street Partners**.

“Dollar-average your commitments every year. Because at that point, you’re automatically a contrarian. You’re under-investing in peak years and over-investing in down years,” said French, speaking at the same event.

Bearish sentiment

The advice may prove timely. Though still in a bull market, several LPs at the conference were bearish, expecting a recession in the next two years.

Strikingly, the fundraising environment bears some similarities to the era leading up to the global financial crisis. *Preqin* data suggests firms are raising more money and faster than in any period since before the recession.

In those years, many LPs prioritized maintaining their asset allocations, often at the expense of choosing the best investment managers for their portfolios, Yett said. Investors who couldn't access their favorite general partners would instead allocate capital to lower performing firms, effectively keeping their allocations steady through investments with second- or third-choice GPs.

This lack of discipline resulted in lower returns for overall portfolios. Funds raised between 2005 and 2007 are among the lowest performing vintages of the past 20 years, according to **Cambridge Associates** data.

LPs have shown more discipline in the current environment, panelists said. Many of PE's largest investors, including groups like **California Public Employees' Retirement System**, now concentrate their private equity commitments within a smaller group of core general partners.

"Recent events have really crystallized what for me and our team is our focus on our best-in-class partners," said **New York City's** head of private equity, **Alex Doñé**, speaking on a panel.

Amid bouts of recent market volatility, Doñé's staff is "making sure the managers we label as primary relationships are the proper managers to get that designation, and leaning into those," he said.

"I think there's more discipline around high-conviction managers," Yett said. "There seem to be some guardrails now."

Assessing GPs

Despite seeing shadows of the pre-crisis fundraising environment in today's marketplace, several panelists showed confidence in today's LPs.

Many institutions require staff to conduct deeper, more thorough assessments of general partners than they had in the past. Improved fund transparency, as well as rapid growth of the secondary market for LP fund stakes, helped many investors develop greater familiarity with the inner workings of their fund holdings.

"The types of transactions you're seeing among limited partners, and the things you have

to dig into, have become substantially more complex," said panelist **Shawn Winnie**, senior portfolio adviser for the **State of Michigan**. "There's far more transaction work."

The quality of data on the private equity industry also has improved in recent years.

"Each year, in this asset class, we're getting smarter and with better data," said Yett. "We're looking at things a lot deeper than we were historically."

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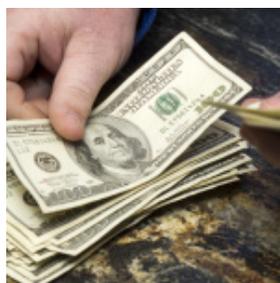
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