

# 10th annual GP Trends 2020



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The same, only  
different?

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# 1

# The same, only different?

Back in 2009, we published the first edition of GP Trends. The global financial crisis (“GFC”) of 2007/8 had hit the economy hard, with many private equity funds and firms feeling the subsequent impact. Some closed their doors, for good.

As we publish the 10th edition of our research into the important issues for those working in the private equity industry, “crisis” is the watchword once again. But the COVID-19 pandemic of today is not the GFC: whereas the impact of the GFC was first felt in economic terms (albeit with very personal consequences, for many), the current pandemic has had a tragically human impact, first and foremost, which has led to a severe economic downturn.

Indeed, the 2019 novel coronavirus took hold just as we were researching this edition of our GP Trends report. We couldn’t ignore the pandemic; in fact, we commissioned additional research, in order to provide a more timely picture of how the world has been impacted and how you and your peers are reacting. You will find a special section in this edition of GP Trends, dedicated to the impact of COVID-19.

But, while current events and their effects are central to this year’s analysis, there are more longstanding trends that also deserve our attention. Once again, we look at gender diversity in the industry and, through the lens of environmental, social and governance (‘ESG’) factors, we look at private equity’s place in the world. Institutional investors continue to clamour for more responsible and sustainable investment practices, but are GPs really listening?

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And, as we mark the 10th edition of GP Trends by looking back over the last decade, we'll also look to the future. What will be the trends that define the next 10 years?

Economic activity was brought to an abrupt halt earlier this year amid efforts to contain the coronavirus, resulting in what is set to be the deepest downturn in living memory. But the green shoots of recovery appear to have sprouted as countries begin to ease their lockdowns, even if a return to pre-pandemic levels is some way off. Providing restrictions can continue to be relaxed without a spike in new infections, the global economy may well contract in the region of 4% this year. However, there is a substantial degree of uncertainty surrounding the outlook.

One thing that can be guaranteed is that life as we know it will not be the same. Social distancing will need to be maintained until a vaccine is developed, which could well be a matter of years. There are likely to

be permanent shifts in consumer spending patterns and working practices as a consequence, which will directly or indirectly affect every single business. But while this will bring challenges, general partners instead appear to be focussing on the opportunities it presents. Our survey suggests this could spark a buying spree to rival that seen in the aftermath of the GFC.

Meanwhile, equity raising should be supported by a favourable liquidity backdrop, as central banks keep their feet firmly on the accelerator pedal. Policy rates have been slashed to record lows and there is speculation that they may even turn negative in some geographies for the first time. There has also been a ramping up in asset purchases, with the Federal Reserve having adopted what is effectively an open-ended QE programme. Any moves to tighten policy will probably not be for a number of years and even then will be gradual for fear of exacerbating any long-term 'scarring'.

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George Brown,  
Investec Economist

“Equity raising should be supported by a favourable liquidity backdrop, as central banks keep their feet firmly on the accelerator pedal.”



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# Private equity: a decade of growth

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# 2

# Private equity: a decade of growth

As private equity emerged from the global financial crisis and started to come to terms with the increased scrutiny, there was uncertainty around how well it might recover.

Well, recover it did. McKinsey recently published a report<sup>1</sup> which presented PitchBook data illustrating an increase in global private equity deal volume from \$590 billion in 2010 to an incredible \$1.47 trillion in 2019. Fundraising has nevertheless managed to outpace even this accelerated investment rate, as more and more dollars and euros (and every other currency, besides) pour into the asset class, adding yet more barrels of dry powder, all chasing new market opportunities.

This hasn't gone unnoticed, and when we asked our study participants to identify the most significant development in the private equity industry since 2010, close to half of them (45%) cited the influx of capital to the asset class and the resulting asset price inflation.

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<sup>1</sup> McKinsey & Company, A new decade for private markets, February 2020

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# 45%

of participants see an influx of capital as the decade's biggest trend



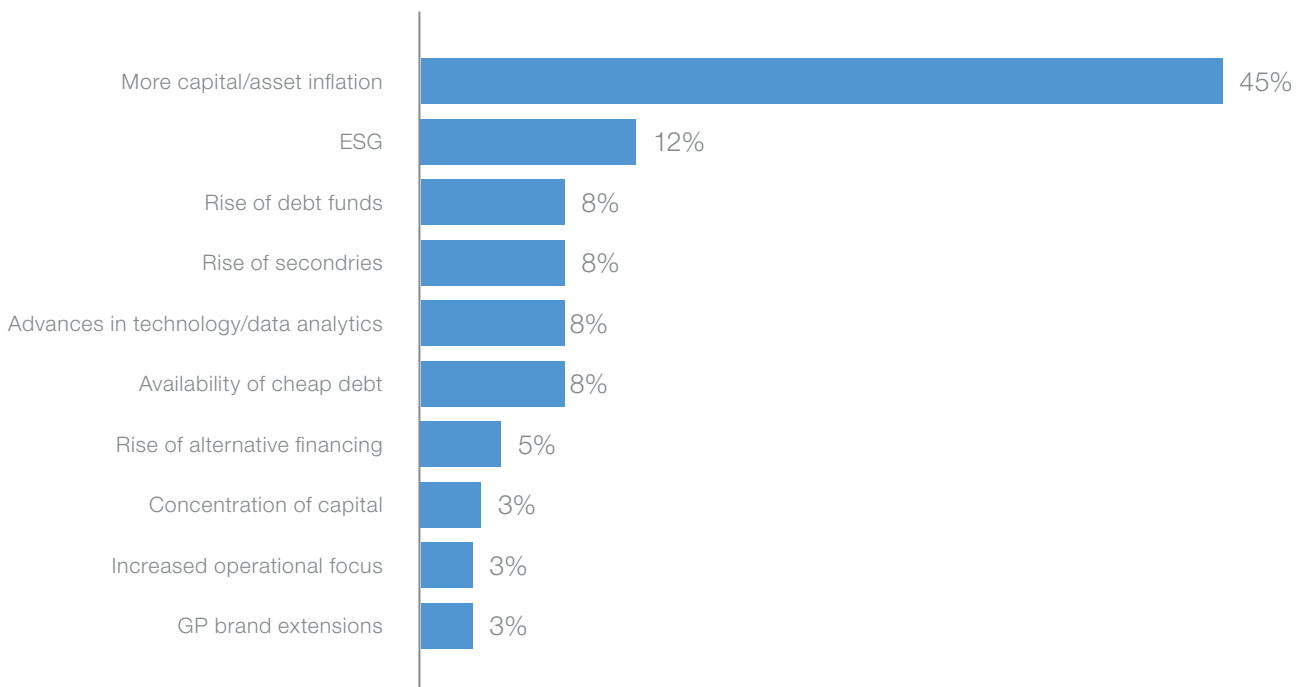
As Markus Golser, Managing Partner of UK mid-market investor, Graphite Capital, explains, this influx of capital has been accompanied by another trend:

“There has been a [...] split in the market between the single strategy funds on one hand, and the asset gatherers on the other.”

Golser’s bifurcation of his peers (single strategy vs “asset gatherers”) identifies another change in the market. As larger private equity funds have started to invest more in their brands, they have leveraged these increasingly valuable assets and begun to launch vehicles in adjacent strategies. Some – such

as The Carlyle Group - have been at this for a while, but now many more have come on-board. Research from Private Equity International in 2018, identified only one firm (tech powerhouse, Silver Lake) out of the largest 10 firms that had not launched a real estate, infrastructure or credit fund. Silver Lake actually closed Silver Lake Alpine, a dedicated credit and structured equity strategy, the following year and is already back in the market, looking for \$4bn for its second vintage.

### What has been the most significant development in the private equity industry, since 2010?



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As these large brands have grown, they have managed to attract a greater proportion of the total capital raised for private markets and a few of our respondents noted this, citing concentration of capital as one of the most important trends of the last 10 years.

In all, more than half of our respondents mentioned the increase or concentration of capital and the launching of adjacent strategy vehicles to facilitate this as the decade's major development. An additional 8% mentioned the availability of cheap debt as another remarkable characteristic of the last 10 years, which will have also fuelled greater competition for opportunities and, hence, asset price inflation.

One area that GPs have tended to launch into as adjacent strategies is debt/credit. But many stand-alone debt managers have emerged in the last 10 years too, with some of them resembling spinouts of more traditional private equity houses. 8% of respondents mentioned this phenomenon specifically. The GPs that participated in our research tended to be fairly heavy users of these funds. Indeed, 42% of all respondents (and 46% of large buyout respondents) told us that more than half of the debt they had used to finance investments and portfolio M&A activity in the previous 12 months had come from private debt funds, rather than banks. This was expected to increase slightly in the coming 12 months.

As the private equity industry has continued to evolve, it is not surprising that the secondaries market has grown. Whitney Krutulis, Head of IR at Chicago based Sterling Partners:

“The biggest shift I’ve seen in the last 10 years is the growth of secondary markets. GP-led fund restructuring has grown into a big and sophisticated market and there was hardly any presence, back then. It has had a huge impact on IR roles.”

8% of our respondents agreed, naming secondaries as the most significant development, too.

Another feature of the private equity industry that has developed significantly in the last 10 years is the availability of alternative financing, such as fund finance and NAV financing, to support a range of needs at the fund or GP level. GPs now have significantly more flexibility in how they finance everything from working capital to commitment bridges, additionally in pursuing opportunities in the portfolio, post the close of the investment period.

Of course, it's not just the product range, service offering and size of the market that has changed. The way that private equity operates has been transformed in a number of ways.

Graphite's Golser, again:

“In 2010 we were reacting to a financial crisis that had exposed a number of shortcomings in the financial environment and fragility in the SME space. It was the beginning of putting in place much more robust portfolio management functions, trying to anticipate rather than react to challenges.”

Industry veteran and CEO of France's Apax Partners, Eddie Misrahi concurs:

GPs now have significantly more flexibility in how they finance everything.

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“There is quite a difference – in 2010 we were more hands-off and, in the last several years, we have been more hands-on and have added operational partners and consultants to the firm and in the portfolio companies.”

In fact, this move to a new operational focus has become so much the norm that it is almost impossible to find a GP that still talks about the financial engineering skills they can apply, even though these can create significant value.

Investindustrial’s CFO, Rohan Maxwell sees this trend continuing:

“The role of operating partners will grow. Monitoring and control functions and all the things that we now do as a standard will increase: real control over everything, not just strategic decisions. If not on top of it all now, it will be very difficult.”

So, to the issue of ESG. Later in this report, we shall look in more detail at the importance of environmental, social and governance factors in

private equity. For now, it suffices to say that, whilst the UN’s Principles for Responsible Investing date back to 2006, it is the last 10 years that have seen the emergence of ESG as something that LPs will not let GPs ignore.

Of course, it is not only LPs that have been behind the push for ESG to become more established. GPs will find that the more they embrace ESG, the more the world at large, including potential recruits, will respect them.

Behaving as good corporate citizens will become increasingly important. After all, as Katja Baur, CFO of Swiss secondaries investor Montana Capital Partners, notes:

“I think the way private equity firms navigate through the COVID-19 crisis and how they work together with portfolio companies and communities during more difficult times will be important for the perception of the industry, especially for younger people, who are not just motivated by money, but also want their jobs to be meaningful and have a positive impact.”

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Whitney Krutulis,  
Head of IR at Chicago  
based Sterling Partners

“The biggest shift I’ve seen in the last 10 years is the growth of secondary markets. GP-led fund restructuring has grown into a big and sophisticated market and there was hardly any presence, back then.”

# 3

## The impact of COVID-19 on private equity



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# 3

## The impact of COVID-19 on private equity

This year we commissioned additional research to better understand how private equity is reacting to COVID-19.

As well as collecting a second set of data on a number of questions, where we anticipated a potentially marked change in response, we asked some additional questions.

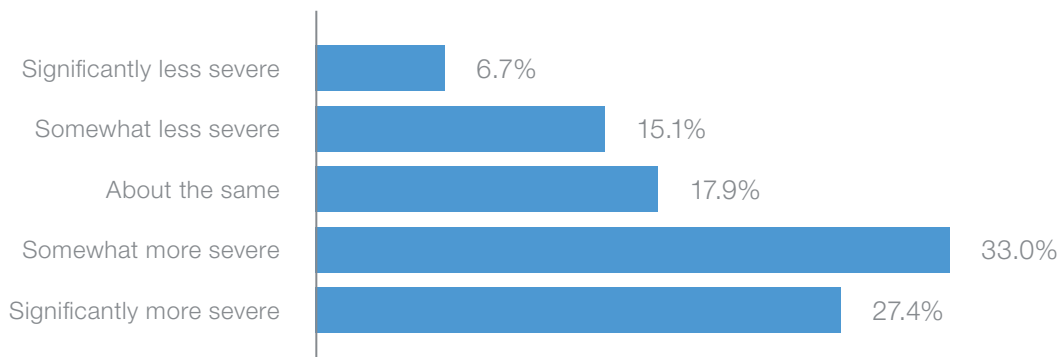
It is difficult to determine exactly when COVID-19's impact is felt in a particular community, but we assigned each region (and, where relevant, each country) a date, based on local governmental advice. Through analysis of the variations in the results we received from that

region we determined sentiment both pre and post COVID-19. While this approach cannot guarantee absolute accuracy, we are confident that the results in this section are a genuine reflection of how the industry has been impacted.

Firstly, what is the general attitude towards COVID-19?

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Compared to the global financial crisis of 2008, how severe do you think the impact of COVID-19 on the private equity industry will be?



# 60%

of GPs that we surveyed expect the outcomes from COVID-19 to be more severe than the global financial crisis.

60% of GPs that we surveyed expect the outcomes from COVID-19 to be more severe than the global financial crisis. This rises to 65% for UK GPs and falls to 53% for those in the US.

Mark Salter, Managing Partner at Apiary Partners,, who is based in the UK, has noticed a transformation in his peers' attitudes to the pandemic:

"There was a tendency by GPs at the beginning of March to be dismissive, thinking that it would blow over. This has changed."

Now that the severity of the situation is apparent, he thinks GPs will be concerned about two things – cash in the portfolio and liquidity within their LP base:

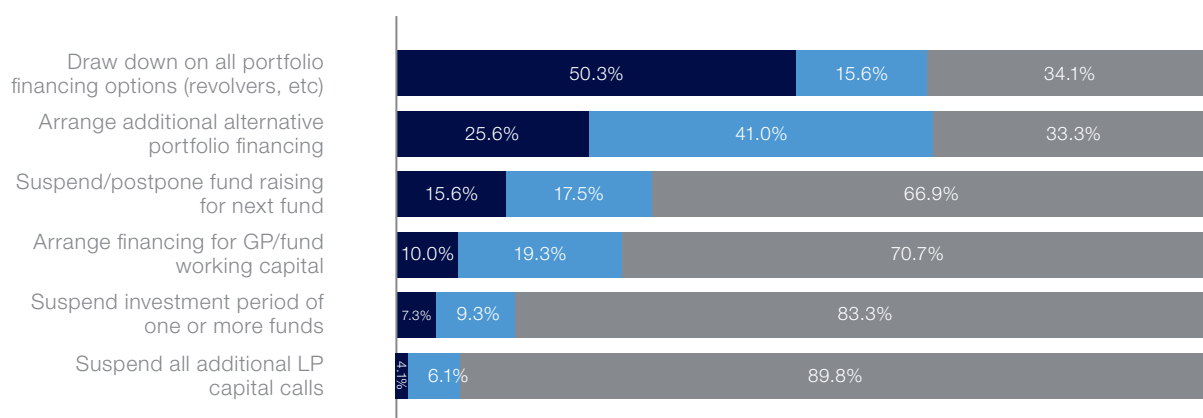
"[In the portfolio] it's all about cash preservation: capex planning, headcount freeze, managing the cost base. Liquidity is a concern for LPs: their own liquidity. They want to understand drawdown expectations, capital call expectations."

GPs would be wise to make sure that they continue to communicate with their LPs throughout the crisis.

Clayton Dubilier & Rice's Novak has a clear plan for the pandemic:

"We have a focus on three areas at the moment. Firstly, keeping people safe - we insist on the best health and safety procedures. Then, we are ensuring that our portfolio companies have enough liquidity and are reducing the cash burn. And, of course, it is very important to us to make sure they can emerge from this strongly."

In response to COVID-19, which of the following steps has your firm already undertaken, and which are you expecting to do in the next six months?



Legend: ■ Already done ■ Expecting to do ■ Not expecting to do

It's not just the portfolio, of course, that needs to be closely monitored. As James Yates of IK Investment Partners explains, it goes deeper than that:

"Supply chain is key. It is important that we know what's happening across all suppliers. Just because you are operational doesn't mean you can get the supplies you need. We've had to source new suppliers in some instances because the usual supply chain has fallen over."

Our research participants demonstrated activity in a number of areas:

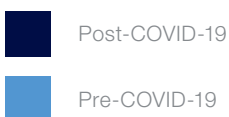
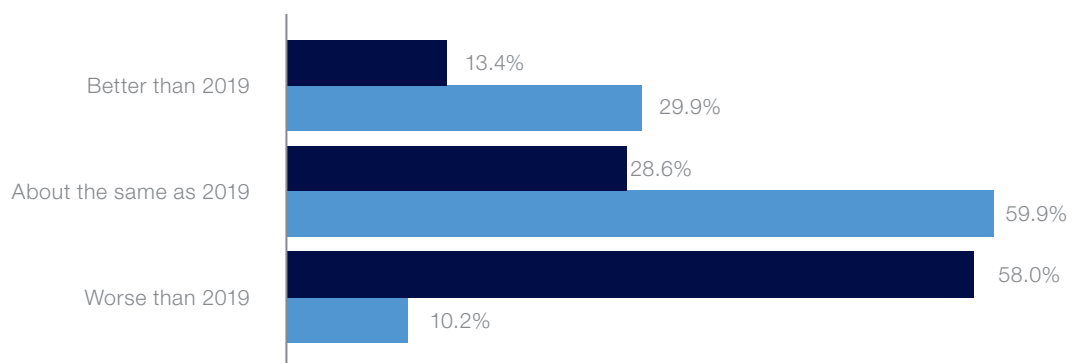
GPs are drawing down on the financing options they have arranged and some are already looking to secure additional financing. Fundraising has also been affected in a significant number of cases,

which may accelerate the need for working capital solutions at the GP level, if anticipated management fees are no longer part of the equation.

With regards to liquidity in the system, the expectation is that distributions may be hit. 50% of GPs in our sample do not expect to make a portfolio exit for at least 12 months.

So, how will this impact returns?

### How do you expect returns at your firm to fare over the next two years?



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# 13%

Only 13% expect to do better than last year, compared to 30% pre COVID-19

Before COVID-19, GPs were bullish about their ability to do well, with 30% expecting to beat 2019 performance and only 10% expecting to do worse. However, it appears that a month and a half is a long time in private equity and the situation is dramatically different now. 58% of GPs are pessimistic about relative performance now, with only 13% expecting to do better than last year.

Dave Novak, Co-President of Clayton, Dubilier & Rice stresses the importance of operational skills in an environment like this:

“The current pandemic is something no one has lived through before, but certainly those firms that were relying on the bull market valuations to give them a return will have to improve their operational capability.”

Koos Teule, CFO of Gilde Buyout agrees and notes a consequence within GPs that will need to be closely managed:

“The operational, consulting people are very important at this point in time. The traditional deal guy is temporarily less important, for the next few quarters. They probably won’t like that.”

Nevertheless, a valuation reset should mean plenty of opportunities for firms with the capital to invest, assuming they know exactly where to look. IK’s Yates:

“In every crisis there’s opportunity. I believe once we’ve gone through this COVID-19 reset, the world will be as strong or stronger than before. If we see rebasing of assets as an opportunity, how do you find the opportunities? If you do your sector studies, and run the appropriate analyses, there will be opportunities there. But you need to know the sectors and underlying

assets incredibly well.”

Indeed, when it comes to how respondents think this year’s deals will perform, they are now much more bullish. 73% now think 2020 vintage deals will outperform those from 2010, compared to only 26% before COVID-19 struck. More GPs anticipate that some of the good opportunities underpinning the increased performance optimism will be found in the public markets, with 53% expecting to look at a public to private deal in the next 12 months (up from 50%).

Regardless of where an initial deal is originated, depressed pricing will likely accelerate platform acquisitions, as soon as valuations become clearer. But how will this activity be financed? COVID-19 has given some GPs pause for thought on unitranche funding, with its popularity softening as a result: the proportion of participating GPs using it was 32% before COVID-19 and now has already fallen to 28%, with syndicated lending seeing a dramatic uptick in activity. Pre-COVID-19, 21% were using syndicated loans and, now, the proportion has risen to 34%.

And once the investment period has ended, the majority of firms are wanting to finance further activity. 81% of GPs still expect to make bolt-on or follow-on portfolio investments, in the current environment (although this has fallen from 85%, pre-COVID-19). We should expect to see more of the financing required to support this activity coming in the form of preferred equity, with 26% of respondents (up from 15%, pre-COVID-19) seeing this as the most likely tool. The majority (55%), however, still expect to use more traditional bank lending.



# 4

## The rise of the specialist



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# 4

# The rise of the specialist

In the past 10 years, the private equity industry and the firms operating within it have undergone a variety of changes. New products, strategies, and methods have emerged, and established ones have adapted. At the individual level, the same is true.

Alan MacKay, Executive Partner and Founder of global healthcare investor, GHO Capital has spent more than 30 years in private equity and has seen a proliferation of new roles and practices come to the fore in that time:

“The universal generalist is becoming part of history books. Now we have specialists by stage of the journey with the company, as well as sector, size, age, part of the deal, credit, exit, etc. It’s becoming so that we bring together a group of people with all the skills to deliver success. In the past, you could just be a big beast to make deals happen and work.”

Apiary’s Salter, has seen the status of the specialist reach new heights in the last decade:

“If I look back 10 years, there are now more functional roles than standard M&A deal doing: operating partners, valuation teams, talent, digital.”

Apax’s Misrahi agrees:

“Today, private equity offers much more diversified career opportunities. The industry has segmented into a number of new areas that previously were not as developed or did not exist.”

It is not just the emergence of new roles; the roles themselves have evolved. As internal processes and functions have become more formalised, it is to be expected that controlling roles, such as that of the CFO will become more complex, even if they don’t always come with the status they might deserve. Montana Capital Partners CFO, Katja Baur, began her private equity career 10 years ago and has lived through this transition:

“As the CFO, you are involved in nearly every process and are dealing with an ever-growing amount of increasingly complex tasks. The business relies on the CFO to keep the big picture. On the

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other hand, you will never get the same recognition as the deal teams. This is something you need to be able to cope with in this role.”

We have already seen that GPs are just as likely to name technological advancement and the evolution of data analysis as the most significant changes to their industry in the last decade, as they are to name the rise of debt funds or secondaries. Later we shall see that the expectation of technology’s future impact is high, within the industry, even if there remains some cynicism around its application to certain core activities.

In all, the development of specialist roles and the greater reliance on data and reporting are perhaps symptomatic of a more fundamental trend. James Yates is CFO at IK Partners, a mainstay of the European buyout scene. He has spent 18 years at the firm and has identified a change in the industry

that started with the largest players, but has extended well beyond them now:

“What has happened in last 10 years is a lot of institutionalisation. It started before with KKR and Blackstone but there weren’t so many then. Now, even mid-market firms are becoming more institutional, less boutiquey. They have gone from a collegiate family office environment to a much more corporate, professionalised environment. The increase in compliance and regulation has also been significant. In some ways, the industry is less ‘fun’ now.”

Every year, we ask our study participants to indicate how happy they are in their jobs, compared to the previous 12 months. Year on year, the data moves, but rarely very significantly. Over the years, we have found that around 90% of individuals say that they are at least as satisfied with their careers in private equity, now, as they were

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Eddie Misrahi  
CEO, Apex Partners  
(France)

“Today, private equity offers much more diversified career opportunities. The industry has segmented into a number of new areas that previously were not as developed or did not exist.”

The proportion of respondents indicating that they were much more satisfied with their careers fell from 14.5% to just 6%. In 2018, the result was 17%.

12 months ago. Typically, more than half of these will indicate that they are more satisfied, than they were in the previous year and a good proportion of them will say that they are, indeed, much more satisfied.

But that was before COVID-19.

As a departure from our usual methodology, and in recognition of the immediate impact of the pandemic, we conducted additional research to assess how opinions and perceptions had been changed. We found that job satisfaction has

struggled with the COVID-19 stress test:

As the chart shows, the proportion of respondents indicating that they were much more satisfied with their careers fell from 14.5% to just 6%. In 2018, the result was 17%.

Despite this, confidence in long-term career prospects remained strong; increasing even, in the COVID-19 environment. 45% of respondents said that they were very confident in their long-term prospects, compared to 36% just before the markets began to react.

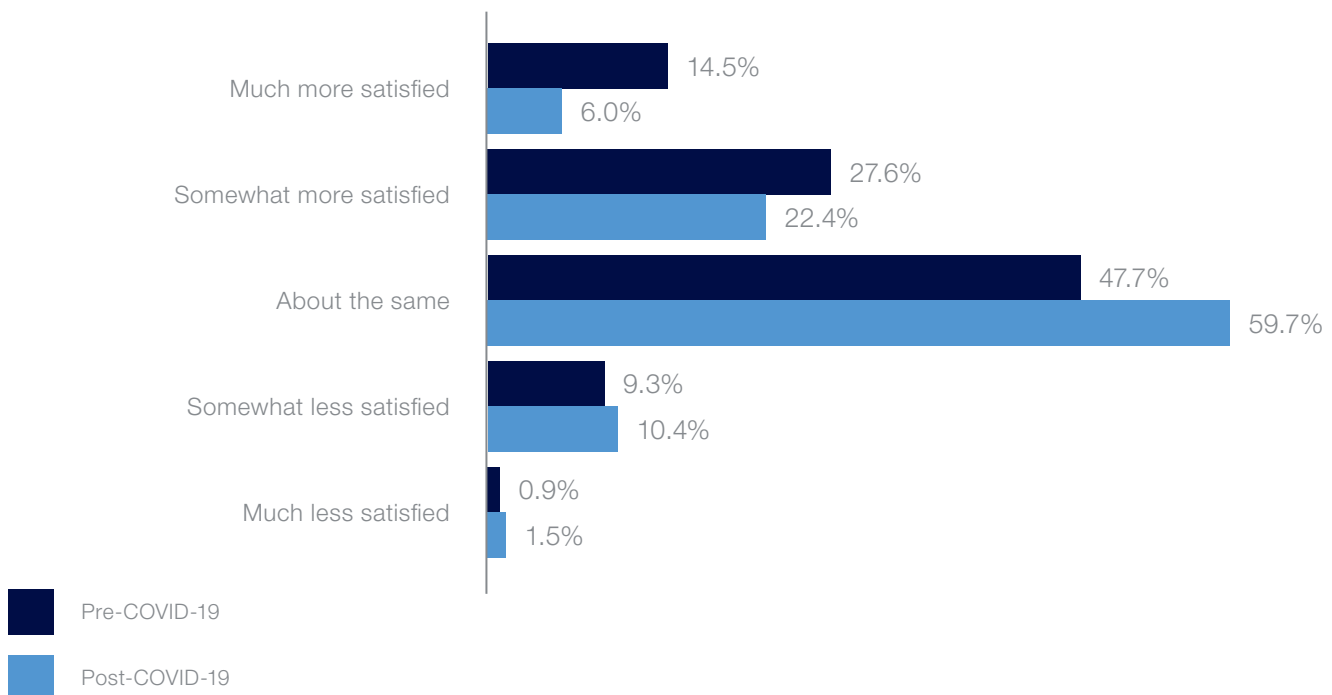
Whilst expectations for short-term carry may be subdued, the expectation for GPs to commit funds alongside its investors has grown, with the investment increasing as their position in the firm rises. GPs now expect to commit around 3.7% of the capital for their next fund, up from 2.9%,

last year, but for some, funding this can be a challenge.

Not all firms provide a scheme to help with this, so many rely on external financing. However, more than 40% of those who expected to fund their share this way told us they felt providers did not understand their income profile. A key obstacle being that some lenders are unable to consider future liquidity – for example, bonus income, carried interest or co-investment returns – when assessing affordability, something that Investec is very comfortable with.

Whilst 16% of those who participated in the survey (rising to 19%, for mid-market GPs), did say that they expected to leave their current job in the next 12 months. This proportion, it should be noted, is in line with results from previous years.

From the list below, which best describes your level of satisfaction with your career in private equity, compared to 12 months ago?



5

# Encouraging diversity



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# 5

# Encouraging diversity

“With regards to gender equality and diversity, in more general terms, the data is pretty clear: very few industries have dealt with this well and private equity is no different”.

So says Novak of Clayton, Dubilier & Rice.

Slowly, the industry is moving from denial at the existence of a problem to a more nuanced understanding of its causes and, importantly, what can be done about it. Looking back on her own career across three different private equity firms, Montana Capital Partners’ Baur has this to say:

“A difficult question. When I started my career, I was of the opinion that if you really want it then you could make your own career path as quickly as a man. But now, after 10 years in the industry and having had two kids in the meantime, I think that it is still harder for women to make their way up. However, diversity is becoming much more important and there is pressure from the LPs on that side, particularly where the senior team of the GP is only made up of men, but I think there is still a way to go.”

There are, of course, policies that can be put into place to address issues such as gender pay gaps,

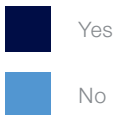
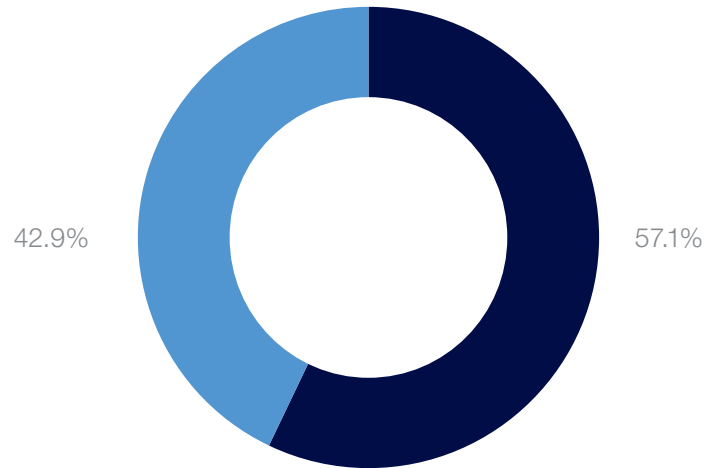
and while many firms have taken steps to improve equality, not all firms are playing ball. Those that do not, can expect mounting pressure to do so. Apax’s Misrahi has faith that this will make a difference, and not just to gender equality:

“In our firm, men and women in the same position are paid exactly the same. You have very significant forces going towards diversity in general – not just male/female diversity. The pressure will continue and force firms that are not acting on this to do so.”

There is clearly more work to be done. Indeed, when we asked the 52 women who participated in this year’s study if they felt that they were paid less because they were women, 57% (rising to a worryingly high 75% for those employed below partner level) agreed.

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Do you feel you would be paid more for doing the same job if you were male?



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0%

of women claim they would start their own private equity practice if they left their current firm

When we asked respondents to indicate how seriously their firm takes this issue, it was clear that most firms are paying attention, even if male respondents tended to be more enthusiastic about their firms' response to the issue than their female peers. One in five women still indicate that their firm is not doing enough.

And the issue extends beyond direct pay comparisons, of course. Whilst the same positions may be technically available to staff of any gender, and they may be able to earn the same for performing that role, this is not the whole picture.

Whitney Krutulis of Sterling Capital explains:

"We are a very male-dominated industry. I have kids. If I was offered twice as much pay to travel every week, I wouldn't do it. To me, it's not worth the sacrifice to be away.

I'm not saying that all women would feel the same way, but that is my experience. A man might make a different choice."

Apiary Capital's Mark Salter accepts that this is true:

"The work life balance in your 30s is not great and I think that sacrifice is one men are more likely to make."

Indeed, when we asked GPs to indicate what they would do if they left their current firms, 15% of men said that they would start their own fund. For the female contingent, that proportion was 0%. The quickest route into a leadership position is, of course, founding a firm but this is not an option that many women are currently entertaining. Successfully doing this requires a significant track record and a certain level of seniority that women are still less likely to have achieved.

As the wave of succession continues to drive change in many private equity firms, there will be more opportunities for promotion, but even if the industry were to suddenly implement a raft of measures to support greater inclusion and empowerment, the result would not be an overnight change. Although some respondents agreed that their firm considers diversity to be key to success, firms have a responsibility to respond to the challenges women still face as they build a career and look to advance into their firm's leadership team. Koos Teule, CFO of Gilde Buyout:

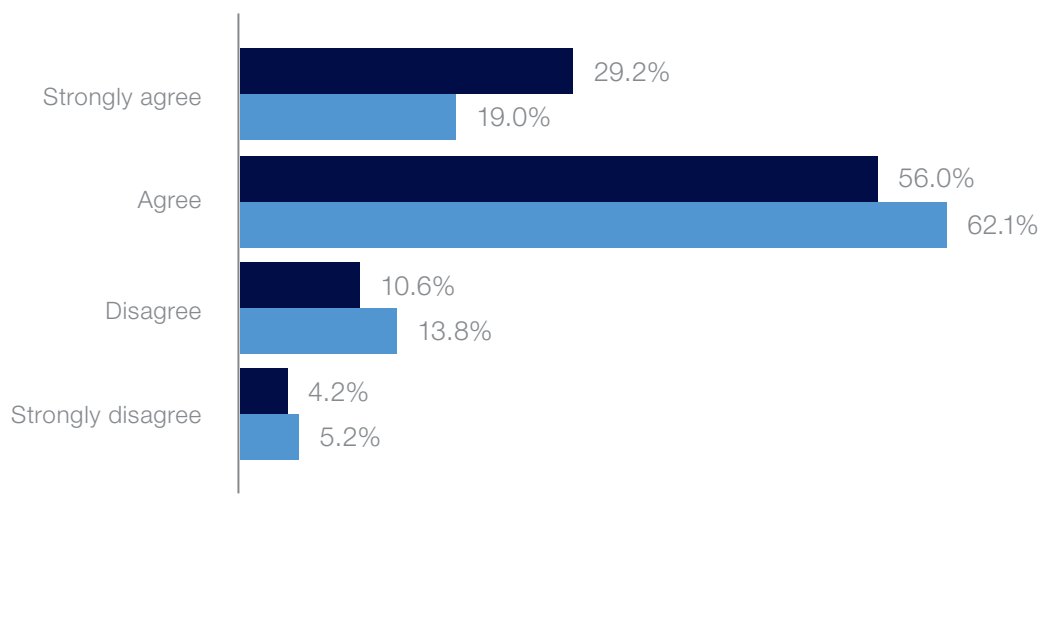
"If we had more women at all levels in the industry, it would be better, but it takes time for new hires to get promoted into senior positions.

Firms need to make sure that they don't lose women for the wrong reasons."

And it should be noted, of course, that there is a strong commercial imperative, alongside the ethical imperative, to increase the diversity within a firm, from all perspectives. Diversity, as a topic, is extremely diverse, of course, as Krutulis states:

"Diversity is always nice to have. It is important to remember that a different perspective can come from more than just a trait or gender or ethnicity. They can come from any kind of experience. We are all consumers, all experiencing the world in our own way. At our firm we like to welcome every point of view, opening up to different perspectives."

"My firm considers diversity and equal opportunities to be key in building a successful business with longevity."





# 6 ESG: a rising tide



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# 6

## ESG: a rising tide

Diversity is just one component of ESG and the acceptance of the importance of environmental, social and governance factors in private equity investing has risen significantly in the last decade.

# 56%

turned down an investment owing to ESG, at least in part

Clayton Dubilier & Rice is one of the longest established and largest private equity investors globally. Dave Novak, Co-President of the firm, describes the investor's attitude to ESG and the potential risk that attention may be drawn elsewhere owing to current events:

"ESG is very important for us. We believe the pandemic has elevated ESG in general and specifically to us and our businesses. Our ESG program seeks to instil strong management competencies at our companies that not only will preserve and create value for our investments, but also position our companies to succeed long after we have exited. There is a risk that COVID-19 will slow it down more broadly, a chance that both financial and human resources and attention will be diverted from ESG factors. As LPs become more concerned about returns and valuations, it has the potential to reduce in importance, but we hope not."

Gilde's Teule echoes this sentiment. Despite a recognition that some may find the additional pressure of COVID-19 a reason to throw off ESG concerns and focus purely on making money, he hopes that ESG may receive even more attention in the aftermath of the pandemic. He says:

"...some will want to go "back to basics" – and just "do good deals that make money", but there will be others that recognise the issues with so much travel and population density. Environmental issues may get more attention."

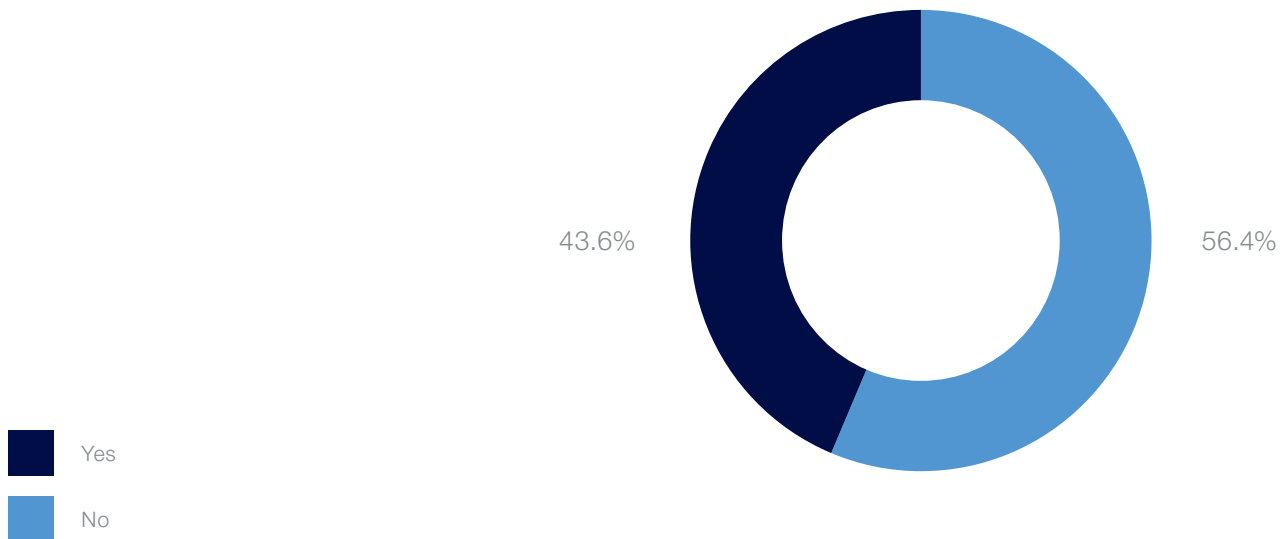
Apax's Misrahi concurs:

"I think ESG will accelerate because of COVID-19. Some think that COVID-19 is showing that all of the issues relating to the environment – man's activity – are contributing to the emergence of more viruses like this."

The inescapable truth is that ESG factors are impacting investment decisions at GPs.

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In the last 12 months, have ESG or ethical factors been a significant contributor to the decision not to invest in one or more companies?



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“In terms of ESG, there is a dynamic shift toward this. It’s a structural shift, not a short-term move. It is so clearly a good thing.”

There is also an expectation that LPs will begin to be more demanding with regards to what really counts as ESG, and what is just considered “greenwashing”. Investindustrial’s Maxwell anticipates closer scrutiny:

“The way ESG is assessed will change. Things you do will have to become more concrete, more demonstrable.”

And it won’t be just be a greater burden of evidence placed on GPs, according to Apiary’s Salter.

Evaluation is becoming more detailed and sophisticated:

“ESG as a topic will evolve into its constituents. We are going to see more than one topic. Social impact, diversity, environment are all going to be important in their own right rather than just one tick box.”

According to respondents to this year’s survey, ESG will continue to be an important trend for the next decade too, with 86% anticipating that in 10 years there will be an even greater focus on ESG and ethical concerns. For participants based in continental Europe, this rises to 90%, and globally, the proportion rises to 96% for more junior staff members at GPs.

7

The next ten years



# 7

## The next ten years

COVID-19 and the changes many of us have been forced to make may have a significant impact on the future of how we work and on our industry. But there are other important influences too. Having already looked at what has made the biggest impact on private equity over the preceding 10 years, let us now see what your peers expect from the next decade.

We can see that 93% expect there to be an even greater use of technology in the industry in the next 10 years, but what of the 7% that don't expect to see greater usage?

Apax's Misrahi concedes the importance of technology but sees its limits, too:

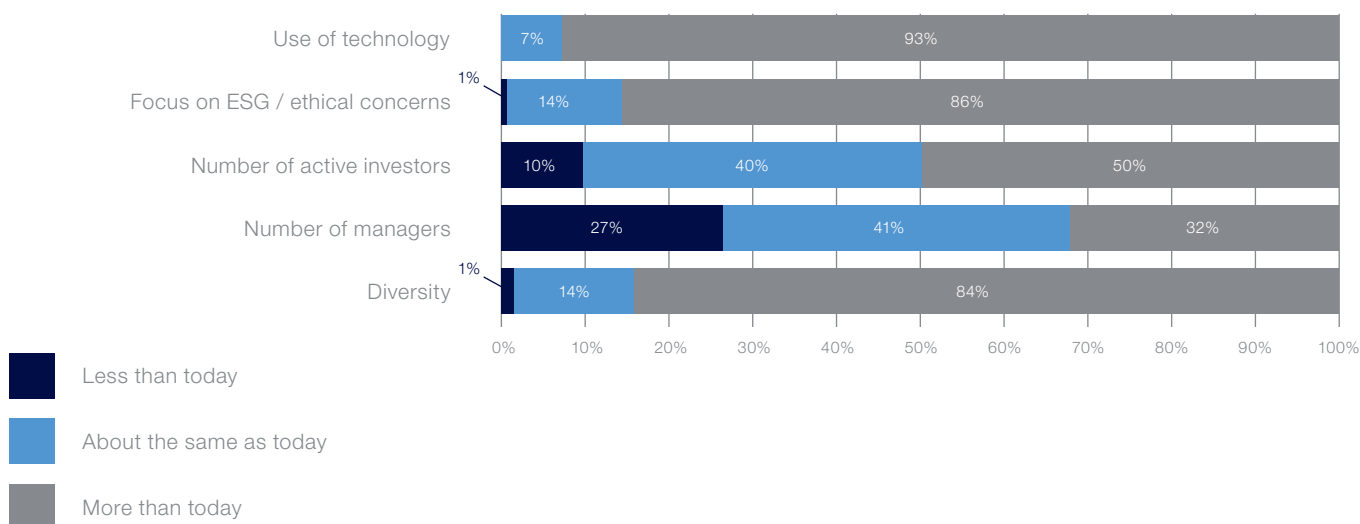
"We have been investing heavily in the digitisation of our own firm. This has improved productivity and helps us, for example, to work from home seamlessly. Digitisation of processes will continue, but whether it will impact decision making? I have a hard time with that. Using

technology to assess deals? This is not technology really: it is just an increase in sophistication of due diligence and the amount of data involved."

And Golser, Managing Partner of Graphite Capital, notes that the nature of GPs target business may mean that a digital approach to certain aspects of activity would be unhelpful:

"We invest in SMEs, which are run by a small number of very significant people and the CEO is a very important role, so it is important to interact at the human level. This

Relative to the industry today, how will the private equity industry look in 10 years' time?



Totals may not equal 100%, owing to mathematical rounding.

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may be less the case in businesses that the larger private equity firms target.”

Alan MacKay thinks that some of the uptake in technology will be specifically as a result of our experiences with COVID-19:

“In the portfolio, the default is to have board meetings in a location once a month – burning up days and days of management time for a one-day board meeting. It is not financially, time or environmentally efficient. If it is a new portfolio then time is clearly needed to build rapport, but once the investment is a year old, why not move to video? COVID-19 is propelling us into this video world and we are all having a crash course in how to communicate remotely. Even in three weeks we’ve gone from YouTube videos joking about people talking over one another to a real collective biorhythm of communicating remotely in large numbers.”

The second tightest consensus around future trends is around ESG and ethics, which we looked at previously. Investindustrial’s Maxwell finds that ESG and technology are driven by a single trend:

“The trend of PE companies requiring businesses to adhere to a set of standards will increase. When companies are first bought, they will have to make significant changes to IT and ESG, which will have a cost, so it makes sense for PE firms to have teams to send in and do these things – they will become more and more hands on. The main area is ESG, but others will follow from that. Cyber security will be next.”

Golser and Misrahi also anticipate an increased concentration of capital within a smaller number of fund managers. 27% of our sample (25% pre-COVID-19, rising to 28% afterwards) also expect to see a smaller total of fund managers operating in private equity in 2030.

Golser, whose own firm runs a single strategy:

“The distinction between asset gatherers and single strategy funds will continue in favour of asset gatherers. The sheer scale and leverage that they can get by dealing with investors across all of the asset classes will allow them to absorb the fee pressures well. Only the best single strategy funds will be able to compete and survive.”

Misrahi, whose firm likewise invests in one area of the market:

“This has been a subject of many false predictions, but I do believe that the industry will become more and more concentrated – there are more funds now than there were in the past, but the barrier to entry in the industry will go up considerably.”

50% of respondents do anticipate that the number of active investors in private equity funds will continue to grow, so perhaps there may be enough capital to go around, for everyone, big and small.

8

A word of thanks



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# 8

## A word of thanks

Many thanks to all of the GPs, who participated in our 10th edition of GP Trends.

In addition to those who took the time to complete our survey, we want to specifically acknowledge the senior industry professionals who took the additional time to talk to us in more detail about their own experiences and their expectations for the future. Thank you for your significant contribution to the report:

**Katja Baur**

CFO, Montana Capital Partners

**Markus Golser**

Managing Partner, Graphite Capital

**Whitney Krutulic**

Head of IR, Sterling Partners

**Alan MacKay**

Executive Partner and Founder, GHO Capital

**Rohan Maxwell**

Partner, Investindustrial

**Eddie Misrahi**

CEO, Apax Partners (France)

**Dave Novak**

Co-President, Clayton, Dubilier & Rice

**Mark Salter**

Managing Partner, Apiary Capital

**Koos Teule**

Partner and CFO, Gilde Buy Out Partners

**James Yates**

Partner and CFO, IK Partners



# 9

## Final thought



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# 9

# Final thought

Thank you for taking the time to read our latest GP Trends report, our 10th edition. We hope you found it a useful commentary on the state of the industry, from the GP perspective, and a fresh view on current events.



**Jonathan Harvey**  
Head of Relationship  
Management, Investec  
Fund Solutions.

Following a decade of change in our industry, we find ourselves suddenly faced with a dramatic upheaval and significant uncertainty, with regards to what lies ahead.

The cliché is that what we are experiencing is “unprecedented” and, of course, there are elements of the COVID-19 crisis that are unusual and combinations of impacts that feel entirely novel. But our industry and the broader economy has faced setbacks before, and has always managed to bounce back.

At Investec, we have operated through multiple cycles and we are living through times of great expansion and, equally, periods of caution. We shall continue to forge ahead, as we all work through the challenges currently facing the industry. We shall continue to innovate across the services and products that we provide to the GPs, funds and portfolio companies that are our valued clients.

The 10 year anniversary of our GP trends report has enabled us to look back at the last 10 years in terms of how we, along with the multiple participants to the survey, have seen the industry evolve.

Covering a wide range of topics from diversity and ESG, to the evolution of multi strategy managers. We have also been able to reflect and look forward during a period of economic challenge, hopefully identifying aspects of the industry that may change as we move forward to the next 10 years.

As we have seen, the impact of COVID-19 cannot be underestimated in terms of the potential economic, social and political fall out across the globe. Whilst we shall continue to prepare for the unexpected, we share the optimism that, given continued vigilance, the effects of the pandemic will begin to reduce.

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## About Investec

Investec is an international corporate and investment banking business working with companies, institutions and private equity funds.

We provide a range of services and products to those operating in the private equity sector including advice, ideas and growth leveraged finance, along with bespoke investment solutions and access to capital markets.

We also have a dedicated team of specialist bankers focusing on the private equity sector, each with an in-depth understanding and wealth of experience in lending to clients in this space.

Our business has grown rapidly by providing companies with a comprehensive range of solutions. In addition, we provide a full range of Private Banking and Wealth Management services for high-net-worth individuals.

Innovation is at the heart of our thinking and our global team has the vision and resources to create unique financing structures for individual requirements.

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## About the research

Research for this edition of the GP Trends report was conducted in conjunction with MJ Hudson, a leading provider of research, legal, ESG and other services to the private equity industry. 387 responses were gathered from GPs from across the globe. In order to

capture the impact of COVID-19, some respondents were asked additional questions. Ten senior professionals took part in longer telephone conversations in order to provide further input. More information on MJ Hudson can be found at [www.mjhudson.com](http://www.mjhudson.com).

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