

## Private Equity Beat

Trends and insight from Dow Jones LBO Wire and Private Equity Analyst

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### Survey Says: LPs Looking For A Few Good Firms

By Hillary Canada

From [Harvard Management Co.](#) to [Oregon Investment Council](#), the private equity investment thesis for many limited partners in 2011 seems to be: “less money to less managers.”

With a legion of general partners out fund-raising, it seems limited partners can and will be extremely picky as to who wins their coveted cash. So to offer a window into the complicated minds of investors, consulting firm Green Peak Partners and Capricorn Investment Group have teamed up for a survey which, at its most basic, asks “What do LPs want?”

Like any self-help book will tell you, the 27 LPs featured in the survey just want someone they can trust. Green Peak notes that according to the results, “the personal qualities of GPs, including ethics and engagement, were nearly as important as their individual investment strategies and track records.”

To that end, 60% of the surveyed LPs said they have moderately or substantially increased due diligence over the past 24 months, with 44% of respondents saying they spend between three to six months investigating new firms and 16% saying they spend more than six months kicking the tires.

Compounding this issue is the fact that although most LPs feel they are adequately equipped to assess basic things, like investment strategies, only a small percentage, less than 20%, feel they are adequately equipped to assess the collaboration and cohesion of team members within a firm. Only 21% said they felt equipped to assess the strength of key team members. This is likely because only 36% of the surveyed LPs have a team of more than 3 people dedicated to PE due diligence.

So it follows that these limited partners are exercising the same caution and ethos put forth by Harvard and OIC. Of those surveyed, 35% said that they anticipated a moderate decrease in their level of investment over the next 24 months, while 64% said they plan to limit that capital to between one and five managers.

So what does this mean? For one thing, with anywhere from three to more than six months of due diligence being conducted, fund-raising periods surely ain't shrinking anytime soon.

Also, GPs need to be ready to put in more face-time with limited partners. Among limited partners in the Green Peak survey, 90% said one on one interviews with the investment team were "extremely important" or "very important," ranking higher than the significance limited partners placed on reviewing business operations, processes and audits. Simply put: put the compliance manual on the shelf and start practicing your [trust falls](#).

<http://blogs.wsj.com/privateequity/2011/05/31/survey-says-lps-looking-for-a-few-good-firms/>