



# PE MANAGER

FOR PRIVATE FUND CFOs, COOs AND COMPLIANCE OFFICERS



## LPs prefer strong teams over track record

Investors' top priority when committing to new funds is not track record, but hard to quantify management performance measurements such as succession planning and depth of talent bench, according to a Green Peak survey.

Limited partners are placing more emphasis on the qualities of a fund's management team than on a firm's historical track record, according to a joint survey by consultancy firm Green Peak Partners and Capricorn Investment Group.

More than two thirds (68 percent) of respondents cited "the perceived strength of team members" as the most important criterion for evaluating a new fund commitment. Comparatively only 40 percent of respondents cited track record as a vital factor.

A similar survey from Gracechurch Consulting and Hawk Partners echoes the findings.

A growing emphasis on the caliber and trustworthiness of GPs is warranted given private equity's long-term investment horizon, said JP Flaum, a managing partner at Green Peak.

Importantly, LPs are struggling to evaluate the criterion they've identified as most important. Questions around a firm's succession planning, training and retention of junior talent and approach to ethics were all cited as important due diligence concerns by the majority of respondents. This is in contrast to evaluating a fund's investment strategy or track record which is easier to quantify, the research noted.

Indeed, more LPs cited a lack of turnover in senior management as a top investment criterion than they did for sector specialization, "control position and activism in portfolio investments" and "extent of sustainable/ socially responsible investments."

As a result of the due diligence obstacles LPs are becoming more selective about which funds they'll invest with, particularly if it is with a manager they've not worked with before, said Neel Bhatia, a fellow partner at Green Peak.

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GPs needed an average 21 months to close a fund in 2010. This is up from 18 months in 2009 and 15 months in 2008, according to a 2011 Bain & Company private equity report.

"The move to a more team-focused and people-focused approach to assessing managers can have huge benefits. The trick is to up the ante on that kind of due diligence – and do it across a greater universe of managers. Otherwise, there's a high likelihood that good opportunities get passed up," Bhatia added.

The survey interviewed 27 LPs primarily consisting of family offices and endowments.