



Private Equity Provider Predictions for 2018

As we look ahead to the coming year, there is a fair amount of certainty that the private equity market will continue to be dynamic and evolutionary – in terms of fundraising, investment performance, operations and policies. We asked PE service providers who work closely with our members to share with us their predictions for 2018. And here we share them with you:

Shifting Market Conditions

It will be more challenging to create alpha through passive investing because of high market pricing. LPs will need to find ‘hidden champions’ with more sophisticated value creation models and growth potential to achieve their portfolio goals.

- Dr. Daniel Schmidt, Founder and CEO, **CEPRES**

I expect more US money to be deployed across the pond and into other select jurisdictions with high growth potential and a lower perceived beta factor than that in recent years.

- Stephen O. Meredith, Partner, **Choate Hall & Stewart LLP**

Today’s secondary market is setting records, but it’s just getting started. Secondary selling was once a solution of last resort for investors, it’s increasingly seen as an invaluable tool for optimizing returns.

- Jeremy Collier, CIO, **Collier Capital**

Congressional tax reforms will not significantly impact PE/VC fund structures. Allocations towards those asset classes will continue to increase, as will emphasis by LPs on fund transparency (particularly regarding fees/expenses).

- Todd Boudreau, Partner, Chair of Fund Practice, **Foley & Lardner LLP**

With UBIT on US public plans off the table, the pace of capital commitments to private equity remains at 2017 levels. Infrastructure and private credit attract significant amounts of LP capital.

- Michael Jordan, Leader of Alternative Investments Practice, **Ice Miller, LLP**

Preqin’s recent LP and GP surveys confirm the key issue facing the industry: the growing level of competition for assets will continue to push portfolio company valuations to even higher levels than 2017.

- Leopold Peavy, Head of Investor Products, **Preqin**

We predict 2018 will see a slowdown of newly formed private equity funds. We see a continued decline in “Funds of Funds” vehicles due to increased Limited Partner fee sensitivity.

- Robert Woosley, National Private Equity Practice Leader, **FD Fund Administration and FD**

We see more fund formation activity for internationally-oriented managers and more fund acquisitions (in Canada). The increasing uncertainty hovering over the public markets make PE all the more attractive.

- Kip Daeschel, Partner, **McMillan LLP**

The dry powder mountain continues to rise. In 2018 we may see some Sponsors cancelling part of their LP commitments as they raised too much money. But who will be brave enough?

- Eamon Devlin, Managing Partner, **MJ Hudson**

In 2018, over 40% of the funds in an average LP portfolio will send out extension request or be in liquidation mode.

- Henry Zhang, Founding Partner, **Morningside Capital Management**

Less reliable top-quartile persistence will lead to an all-time high for first-time fund commitments, record investment in niche strategies, and unprecedented use of digital tools that streamline complex commitment processes.

- Antoine Drean, CEO, **Palico**

GP/LP Transparency & Collaboration

Collaboration between independent financial service and technology firms to bring greater standardization and efficiency to limited partners and the industry.

- Shay Caufield, Executive Vice President, **Citco Fund Services**

Third party fund administrators will continue to penetrate the private equity space to provide independence, transparency, and enhanced reporting capabilities that sophisticated LPs continue to demand.

- Stuart Wood, Managing Director, **Cortland Capital Market Services**

Analytics on LP investment portfolios and GP track records will advance at breakneck pace and usher in a new era of transparency, accountability and discipline for private market investors.'

- Katita Palamar, Managing Director and Co-Founder, **LP Analyst**

In 2018, regulation will focus on fee transparency. In response, we'll see a greater emphasis on technology and outsourcing to drive efficient reporting and to automate portfolio investment reporting.

- Mattie Wortham, Managing Director, **Mitsubishi Fund Services**

There will be increased collaboration among limited partners in real time as they consider investments into specific private funds, which will improve upon the current process of manifold bilateral negotiations with general partners.

- Paul McCoy, Global Leader of Private Equity Funds Practice, **Morgan Lewis**

We'll continue to see more uses of credit facilities by managers as capital continues to remain cheap, this will make assessing performance harder resulting in more demand for standardized reporting.

- Richard Change, Co-Founder/Managing Partner, **PFA Solutions**

Hands-on Portfolio Engagement

In 2018, I believe we will see an increasing number of large LPs seeking to make direct investments, providing more influence and control over their portfolio investments.

- Hugh Stacey, Executive Director, **Augentius**

Institutional LPs will prioritize surfacing of direct investment opportunities, often in partnership with other strategically aligned investors. Improved investment economics - both in heightened returns and reduced fees - drive this trend.

- Renee Neri, Partner, **Heidrick & Struggles**

GPs' will outsource more operating capabilities and leverage tools to institutionalize their portfolio operations approach as they try to balance LP's focus on value creation with operating partner compensation scrutiny.

- Amy Newlan, Senior Vice President, **Maestro**, part of the Accordion Ensemble

Alpha will be driven by value-creation through deeper operational involvement by GPs. This additional effort will lead to fewer platforms per fund and an increase in strategic outsourcing.

- Abilash Jaikumar, Managing Director, **TresVista Financial Services**

The diligence process is on its way to being totally revolutionized through automation and the application of AI. This will make the diligence process more data and analytics-driven and the focus will shift from process-completion to true risk-reduction.

- Sanjeev Dheer, CEO, **CENTRL**

Operating Enhancements

Increased pressure to deploy capital may push the boundaries of GP expertise and drive demand for robust transaction diligence and engagement of external experts to optimize value and mitigate risk.

- Gavin Farrell, Director, **Berkeley Research Group, LLC**

Deal teams will embrace the new reality: the single biggest risk factor in deal success today is the strength of the leadership team. Winning PE firms will invest in their own talent capabilities to ensure their leadership playbook is tight.

- Lisa Baird, Partner, **Heidrick Consulting**

In 2018, private equity investors will require more sophisticated investment technology. To use this technology to its fullest abilities, they will need subject matter experts and data management capabilities.

- Massimo Zannella, Managing Director, Portfolio Administration Services, **SS&C GlobeOp**

Reporting Enhancements

LPs and industry bodies push to ease the administrative burden of extracting non-standardized and unstructured data at the fund and portfolio company levels. Standards like AltExchange will really start to make their mark.

- Alex Tarantino, Commercial Director, **Colmore**

The traditional locks to accessing alternative investment data will finally be broken. Fund managers will prefer to provide the standard data Investors need to perform more advanced analytics rather than painfully restricting it.

- Thibaut de Laval, Chief Strategy & Marketing Officer, **eFront**

From today's PE reporting discussions in current industry initiatives, educational efforts, and LP feedback, we can expect 2018 to bring renewed efforts around open-standard, digital PE reporting.

- Lorelei Graye, Consultant, **Leodoran Financial**

Tax changes drive a new "fund tax entity report" - a report (and systems) that disclose all of the AIVs blockers, and holding companies behind LPs investments with a fund. These tax changes lead to structure changes, which could be significant.

- Scott Allen, Solutions Director, **SEI Investment Manager Services**