Private Equity Service Provider Predictions for 2019

For the second consecutive year, we asked the private equity service providers who work closely with our members to share with us their predictions for the coming year. We are pleased to share those forecasts, grouped by theme, here with you.

**Winter is Coming**

Managers will make some of the most impactful decisions of their funds’ lives during 2019. How and where firms invest becomes business-critical in late-cycle markets.

- **Jeremy Coller, CIO, Coller Capital**

We anticipate that private equity will see short-term absolute return compression from the elevated levels seen in recent years; however, we expect that performance will improve relative to public equities.

- **James Gelfer, Senior Strategist, PitchBook**

High valuations and the need to accelerate growth by large, mature corporations will mark another year where GPs continue to sell their investments and return capital to LPs.

- **Federico Jost, Managing Director, Berkeley Research Group**

We expect H1 2019 fundraising to be robust in PE and Infrastructure, while softening in VC and Credit. H2 is of concern given European political uncertainty and its impact on currency valuations, US and China trade tensions and the brewing US political storm.

- **David Parrish, Partner, DLA Piper**

With increasing risk of macroeconomic and political market shocks, LPs will be closely scrutinizing leverage utilization and covenant requirements - both in underlying assets and at the vehicle level.

- **Charlie Tafoya, Co-Founder, Chronograph**

The markets are in a turmoil and the PE funds have been buying and consolidating industries for the past 10 years in a very “hot” market. How much more can be consolidated? With bankruptcies more common and a correction visible in our future, PE funds will be more cautious.

- **Martin Pichinson, Co-Managing Partner, Sherwood Partners, Inc.**

**Secondaries & Unique Offerings to the Fore**

In 2019, the fastest growing segment of private equity secondaries market will be transactions between secondary funds / fund of funds.

- **Henry Zhang, Managing Director, Morningside Capital Management**

We will see several very large secondaries-backed spinouts in 2019 - why only take your track record from your prior firm when you can bring the deals with you too!

- **Adam Tope, Partner, Hogan Lovells US LLP**

As the volatility of public equities markedly increases and commensurately, institutional credit shrinks, opportunities for private credit and secondary acquisitions will increase exponentially.

- **Marc Lieberman, Chair, Kutak Rock Institutional Investments Group**

We expect more spinout funds given competition in the middle-market as fund sizes (and purchase prices) have increased. We also anticipate increased demand for specialization and unique value propositions.

- **John McCormick, Managing Director, Monument Group**

The secondary market may hit $100bn a year. GP-led sales and restructurings could become part of a differentiating factor to raise funds, providing what we call “liqui-duty” to their LPs.

- **Julien Gervaz, CEO, Palico**
Blurring the GP LP Distinction

We see robust fundraising continuing in 2019, given healthy returns of capital in 2018. LPs will diversify, investing in Opportunity Zone funds, Emerging managers, “Funds of One” and other bespoke options for greater customization and control over their investments.

- Todd Boudreau, Chair, Private Funds | Buyout, Foley & Lardner LLP

GP and LP lines will continue to blur with increasing co- and direct investments driving asset allocators to leverage multi-asset class technology and data solutions more than ever to manage their portfolios.

- Jaime Hildreth, Managing Director – GP/LP Strategy, IHS Markit

We expect to see fund managers create more specialized investment / co-investment funds with narrower mandates to not only attract targeted investors but also to give them a leg up on the competition in acquiring portfolio companies.

- Richard Change, Managing Partner, PFA Solutions

More strategic partnerships will define the evolution of LP/GP relationships. Investors will continue to seek attractive returns from their managers, but also greater value-added services enhancing the overall relationship.

- Aris Hatch, Managing Director, GCM Grosvenor

Co-investments and club deals take LPs “back to the future”; transparency improves, the impenetrable 2/20 continues to fade. Consolidation strengthens (but net flows aren’t). Two steps ahead, one step back!

- Melanie Pickett, Practice Executive and Head of Front Office Solutions, Northern Trust

Transparency for Portfolio Management

Granular data sets and analytical sophistication will become increasingly accessible as machine learning takes alternative asset classes to a new level of maturity.

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

As capital continues to move into private markets and vol increases, LPs will demand more access to data, analysis, transparency, and risk management systems to better manage and integrate their alternatives portfolios within their broader portfolios.

- Lynn Baranski, Managing Director, Global Head of Investments, BlackRock Private Equity Partners

Investors will continue to push for greater transparency. They will apply new technologies to this data for better engagement with existing GPs, deeper understanding of prospective investments and more sophisticated portfolio decisions.

- Katey Bogue, Head of Private Markets, eVestment

Limited partners will continue to coalesce around information transparency and demands will ratchet up on GPs, although standards will remain difficult without legislative action.

- Josh Smith, Co-Founder & CEO, Solovis

Top private market investors continue aggressive adoption of outsourced data, reporting and analytics platforms to enhance transparency, improve decision making and better predict outcomes across all aspects of their programs.

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

With many allocators having announced additional capital for privates, we expect pressure on GPs to improve transparency to facilitate the level of risk management necessary to support this portfolio segment.

- Dave Hsu, Co-founder and CEO, Caissa

GPs are primed in 2019 to evolve past checking the boxes on DDQs and really leverage technology. Data now being collected will drive transparency for their LPs and provide insight to mitigate risk in the GPs’ portfolios.

- Paul Landi, Product Strategy - Alternatives, FIS Global
**Tools Rise in Importance in Toppy Markets**

As LPs prepare for a potential market downturn, they will keep a close eye on their manager fees and incentive allocations. They will continue to implement inhouse or 3rd party fee validation programs to ensure compliance.

- Alex Tarantino, Commercial Director, Colmore

Institutional investors will continue to expand the scope of their diligence on private equity firms to include technology, cyber-security, management transition, and other operational risk factors.

- Robert Woosley, National Practice Leader - Private Equity, Frazier & Deeter

We see fund term comparability play an increasingly important role for pioneering LPs and GPs. These expanded data and analytics capabilities will accelerate through new technologies for more thorough due diligence and improved transparency.

- Stephen Hazelton, Founder & CEO, Street Diligence, Inc.

Intralinks’ 2018 LP Survey confirms that transparency and reporting standardization will continue to be important. GPs that can improve how they communicate portfolio performance will have a leg up in this competitive fundraising market.

- Meghan McAlpine, Director of Strategy & Product Marketing, Intralinks

The LP Operational Due Diligence performed on both emerging managers and established GPs will show increased intensity in 2019 and will include more LP “must-haves” than ever before.

- Jeff Gendel, Principal, Gen II Fund Services LLC

Despite, and possibility because of, increased market volatility, some of the largest VC-backed companies such as Uber, Airbnb and Lyft will finally go public and significantly increase in-kind distribution activity back to LPs.

- Henri Moudi, Managing Director and Co-Founder, Mission Creek Distribution Management

Tech-enabled value creation becomes more mainstream. A new generation of operating talent emerges at the GP and Portfolio Company level with an emphasis on industrial automation and cybersecurity.

- Jon Cooper, CEO, Industrial Exchange