



LP & GP Perspectives on Key Conversations for Smoother Operations in Rough Seas

ILPA Town Hall

May 7, 2020

Key Conversations for Smoother Operations in Rougher Seas

Both LPs and GPs Speak



312 LP and GP participants from 91 organizations gathered virtually to discuss best practices, valuation conversations, engagement with portfolio companies, and changing GP tactics for managing portfolios during COVID-19

We asked seven polling questions to clarify key focus areas for LPs and GP dialogue, to assess **how both groups are working together to address shared challenges** in the current economic climate

For additional perspective, we've referenced **16 1-on-1 hour-long interviews** with ILPA Members from our ongoing *LP Insights Program*

Key Takeaways Include:

- LPs feel that the **quality of GP communications has improved** since the GFC, and GPs feel that **LPs are better prepared** to handle a down market than they were in 2008.
- LPs still value in-person meetings and these will be supplemented with **an increase in virtual meetings as part of the new normal.**
- In the short term, **LPs expect GPs to prioritize the survival of existing portfolio companies.** However, LPs and GPs alike are **beginning to consider potential opportunities brought on by the crisis.**
- LP's learned important lessons in the GFC. **LPs were better prepared for liquidity challenges and stakeholder management conversations, with help from their GPs.**

Key Conversations for Smoother Operations in Rougher Seas

Panelists



Christine Pastore
Vista Equity Partners



Tim Recker
James Irvine Foundation



Jim Rutherford
Pine Brook



Greg Durst
ILPA (moderator)

Summary of Topics

What is Top of Mind for LPs and GPs

What ILPA Asked LPs

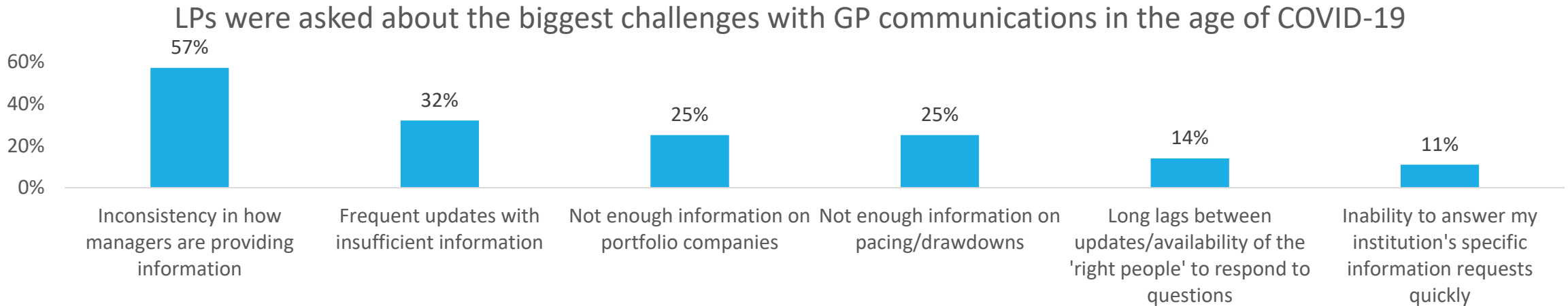
- What are the biggest challenges with GP communications in the age of COVID-19?
- Where do you expect GPs to be spending the bulk of their time with portfolio companies today?
- Where do you expect GPs to be spending the bulk of their time with portfolio companies in Q3?
- What types of meetings will make a long-term shift to be primarily web-based communications?

What ILPA Asked GPs

- What are the biggest challenges with LP communications in the age of COVID-19?
- How have you changed your information flows to LPs regarding portfolio companies?
- What types of meetings will make a long-term shift to be primarily web-based communications?
- How will you adjust portfolio valuation options shared with LPs for Q2 marks?

ILPA Asked LPs: Communication Challenges

GP comms re: COVID are better than during GFC, but LPs struggle with inconsistency



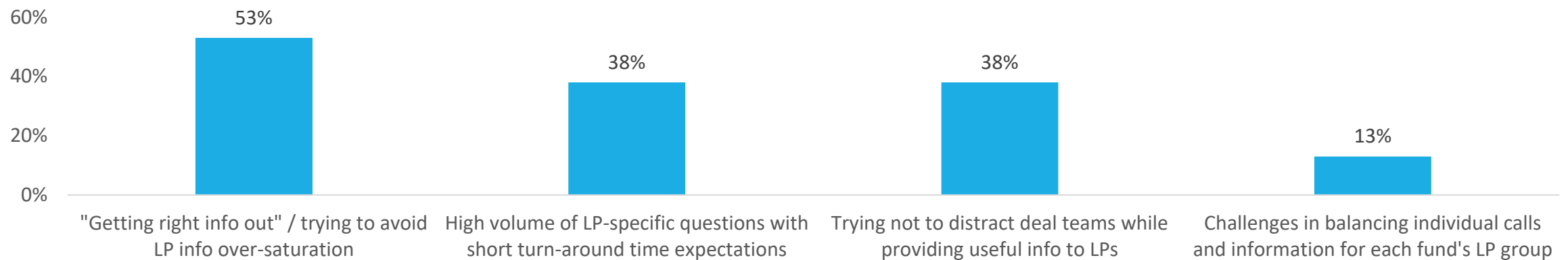
- LPs and GPs feel that **the quality and availability of GP communications is much higher than it was during the Global Financial Crisis**: "GPs have been providing good updates to their LPs in this environment. All of our managers have reached out with communications about what is happening with our portfolio companies."
- 57% of LPs are experiencing challenges regarding how GPs are reporting information: "Most GPs have a desire to provide LPs with information, but not all LPs want the same thing. **GPs need to figure out how to get the information to LPs without making it too complicated for internal operations.**"
- **LPs are going deeper for a reason**: "I ask my GPs what is happening at the portfolio company level. Where are the higher risks? Where are potential liquidity issues?"

ILPA Asked GPs: Communication Challenges

GPs want to get LPs relevant information while balancing volume of information requests

- **GPs are keen to get the right information to LPs**, broadly representing an improvement over the GFC. “To the extent we have information on hand we will share it with our LPs.”
- There is an **ongoing balance for GPs sharing information** with LPs: “We cannot distract the portfolio company with information requests. Job number one is to make sure portfolio companies are healthy now and in a good position when the economy restarts.”

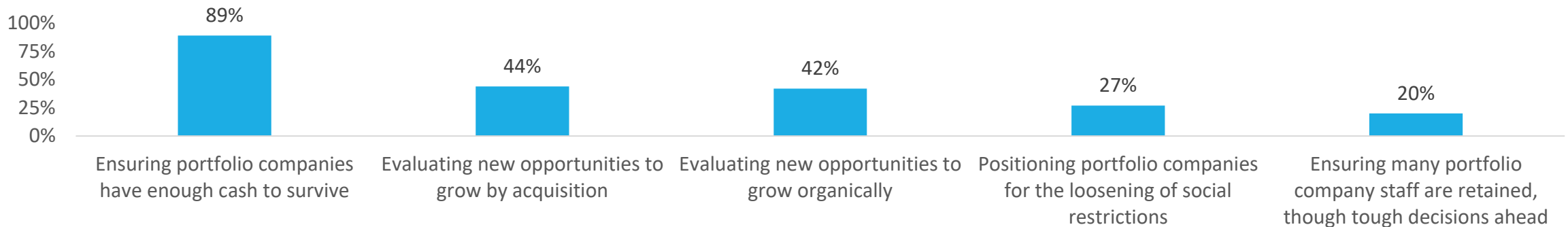
GPs were asked about the biggest challenges with LP communications in the age of COVID-19



ILPA Asked LPs: GPs' Efforts Today

LPs expect GPs to devote themselves to ensuring portfolio companies survive

LPs were asked where they expect GPs to spend the bulk of their time with portfolio companies today

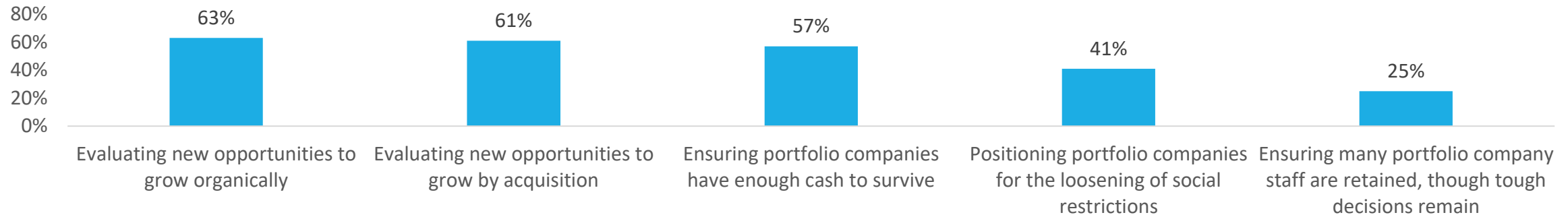


- For now, **89% of LPs expect GPs to focus on the survival of existing portfolio companies:** "The first month was all about liquidity at the portfolio company level. These conversation continue now."
- **GPs now have a better understanding of COVID-19's impact on their portfolio companies:** "We went through a phase of uncertainty. We are now past that phase."
- **GPs are looking to position their companies to succeed once the crisis abides:** "Most of these companies have been intentionally shut down. When they can restart, they will need capital to ramp things up. We don't want to cut costs too deeply today and spend more capital on the restart."

ILPA Asked LPs: GPs' Efforts in Q3

GP focus is expected to shift to growth opportunities

LPs were asked where they expect GPs to spend the bulk of their time with portfolio companies in Q3



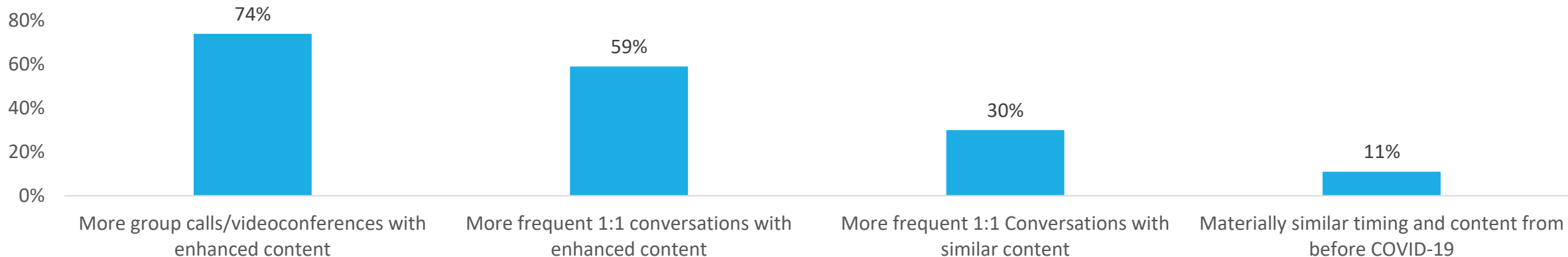
- Looking ahead, **LPs want their GPs to think opportunistically**: “As much as we want our GPs to play defense, we have several GPs in position to play offense. We are encouraging our GPs to call capital if they spot opportunities.”
- **GPs are beginning to focus on growth**: “We’re spending 80% of our time focusing on the now, but 20% focusing on the future. We are breaking out offensive capital. We have no crystal ball but were hoping things rebound and there are more opportunities by the end of Q3.”
- **The relative emphasis on saving and creating value in the portfolio over employee retention could exacerbate industry image issues**: “One of the biggest challenges we face every year – what is PE? Isn’t it taking some big company private, firing people, then selling it? We are constantly pressured by public perception.”

ILPA Asked GPs: Portfolio Company Interactions

GPs are broadening and deepening their communications with LPs in this crisis

- The majority of GP respondents are adding more formats with more content, with **a clear shift to “one-to-several” communications.**
- **GPs are systematically providing LPs with detailed updates on their portfolios:** “We have scheduled over 100 one on one calls with LPs. We walk through specific topics like underlying company debt levels, potential covenants, company revenues, how much dry powder we have and how we have used subscription lines.”
- Many **GPs had been growing their digital delivery in the past - and are accelerating now:** “We have been doing webinars on our portfolio 2 to 3 times a year. The technology has worked well and people are comfortable with it.”
- **LPs are relying on tech solutions** to keep investment management operations running: “We have been using Zoom and Microsoft Teams. We are setting up additional calls, sending out more emails to GPs, etc. We’re relying on our technology and the sensibilities of our team.”

GPs were asked how they have changed information flows to LPs regarding portfolio companies



ILPA Asked LPs and GPs: PE Engagement Virtualization

LPs were polled about the future of virtual LP-GP communications

The shift to remote meetings may be the new normal for certain types of engagement...

...but face to face, in-person meetings will still make a comeback in the post-COVID-19 world

- More routine GP-LP conversations are likely to rely more on virtual formats even after the COVID crisis subsides. **87% of LPs believe conversations about existing portfolios will occur more frequently long-term via virtual platforms.**
- **65% of LPs believe that LPs will rely on virtual due diligence for existing managers:** "Attending 'onsite' meetings through online video chats seems reasonable for existing GPs and reup decisions. We already know them well."

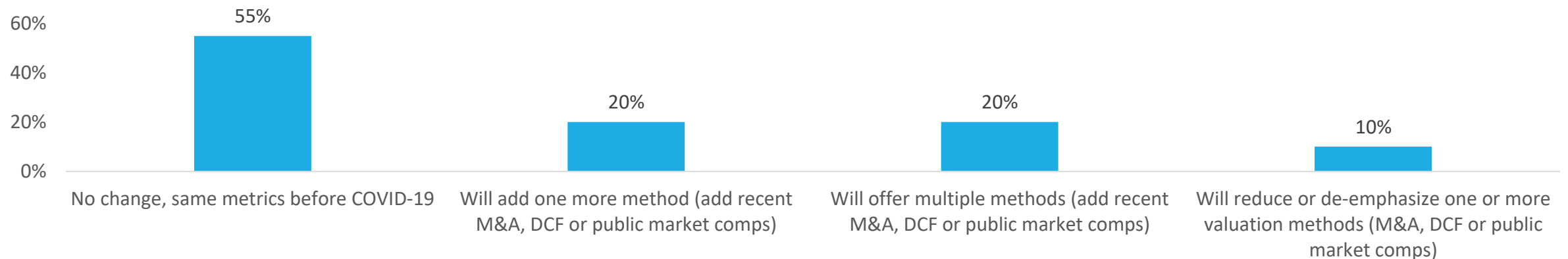
- **Only 6% of LPs expect to make commitments to new GPs while meeting virtually is the only option.** Only 18% of LPs expect to conduct virtual commercial due diligence meetings and 22% expect to make virtual intros to emerging managers.
- **The in-person benefits of AGMs will be hard to replicate:** "I think virtual AGMs are fine option but not long-term solution. Part of investor meetings is to network with other partners and get to know them."

ILPA Asked GPs: Valuations

More than half of GPs will not make changes to portfolio valuation metrics

- Many **GPs argue that marked-to-market valuations alone misconstrues the value of PE**: “If valuations are only pegged to public market equivalents that does not make sense for PE. We are focused on long term value. Being hyper-focused on a single day value is not what PE is about.”
- **Many GPs were already employing multiple valuation methodologies prior to the COVID crisis**: “We already had multiple metrics in place. Looking across methods and emphasizing one over another - I would be shocked if you did not see some smoothing of results.”
- Still, **LPs have a lot of uncertainty regarding upcoming valuations**: “The first 2 months of Q1 were good months. What will EBITDA look like in Q2? What will valuations look like with multiple coming down?”

GPs were asked how they will adjust portfolio valuation options shared with LPs for the Q2 marks



ILPA Contrasted the Current Environment with the Global Financial Crisis

LPs learned key lessons in the GFC, so denominator effects are not as prevalent in this crisis

- LPs have been more consistent with their strategies compared to the GFC: **“LPs are seeing the denominator effect, but their boards are comfortable with their plans and asset allocation models.** PE programs continue to move forward and allocate capital.”
- **Many LPs have conditioned stakeholders about the long-term nature of the asset class:** “We have not changed our strategies yet. We are not concerned by the denominator effect. That is a timing issue that will self correct. PE is a long-term asset class. We will keep our commitment levels steady.”
- **GPs feel the difference in preparedness in their LPs when compared to the GFC:** “I have not heard the words “denominator effect” more than 3 times out of 100 calls with LPs. Almost every conversation is focused on the portfolio - and where the opportunities are. I have had numerous inbound calls about potential opportunities. The industry is more prepared this time than 2008. But if this crisis lasts for another year or more, all bets are off.”



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