

Study: Lack of quality investments worry GPs and LPs alike

Both fund managers and investors see the lack of quality investments as the biggest challenge to private equity over the next 12 to 18 months, according to the second part of a global survey by fund administrator SEI.

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The second part of the 2011 SEI survey released this week, entitled "Searching for Alignment", found that for 34 percent of investors and 31 percent of managers, lack of quality investment opportunities was the most significant challenge facing private equity in the next 12 to 18 months. The survey canvassed the opinions of 411 investors, consultants and fund managers.

However, 50 percent of consultants felt that economic uncertainty was the most significant challenge, with only 20 percent choosing the lack of quality investments. The report said this was due to the broader economic outlook taken by consultants compared to that of GPs or LPs.

One of the issues respondents were least concerned about was new regulatory requirements. More than 70 percent of managers replied that the new regulations were "insignificant" to their firm's profitability. The report stressed, however, that this did not mean fund managers were not worried about the spread of regulation globally or that it would have no effect at all.

The fear of poor performance also figured prominently amongst respondents' top three concerns about private equity investments, with more than 70 percent including it.

Failing to achieve its primary objective for investing was the next top priority, with over 50 percent identifying this as a top concern, and thirdly valuation was chosen by almost 40 percent of investors and consultants.

High levels of fees did come as a top priority for over 30 percent of investors and consultants, but 25 percent also noted that paying management fees on uninvested capital was a main concern for them. According to the report, it is not fees themselves that are the problem, but the "lacklustre performance" of some firms that still charge much higher fees than those in other asset classes.

In turn, satisfying investors' expectations was the biggest operational challenge for 45 percent of fund managers compared to the next greatest for 28 percent of managers, which was increasing efficiency.

A "transparency gap" has also emerged between fund managers and investors despite 80 percent of all respondents agreeing that there has been an increased emphasis on transparency over the past few years. Only 10 percent of consultants and 42 percent of investors believed that they currently receive all the information they want from their fund managers. This compares to the 85 percent of fund managers who believe their investors do get all the information they require.

There is also a discrepancy as to what risk information is considered the most important. The report shows that 75 percent of managers think that industry sector is a priority, compared to less than 20 percent of investors. The most important risk information for 75 percent of investors is leverage.

The report has identified transparency as the area GPs must address to get ahead of other fund managers as investors increase their demand of scrutiny in this area.

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