

# LPs' investment concerns and plans during the time of COVID-19

PRESENTED BY: IMDDA

**P**ROBITAS  
PARTNERS

IMDDA



# Speakers



**Daniel Strachman**  
Managing Partner  
A&C Advisors,  
Co-Founder  
IMDDA



**Jennifer Choi**  
Managing Director,  
Industry Affairs  
ILPA



**Sweta Chattopadhyay,**  
Director, Private Markets  
Bfinance



**Gordon Hargraves**  
Partner  
Private Advisors



**Kelly DePonte**  
Managing Director  
Probitas Partners

# Agenda

- Survey results
- Panel discussion:
  - *Changes to due diligence practices*
  - *Adjustments to investment plans for 2020*
  - *Due diligence priorities in reviewing current fund portfolios*
  - *Targeting fund strategies for new commitments – has the time for distressed investing arrived?*
- Audience Questions

# The Survey and This Presentation

How are LP's reacting to COVID-19 and its economic consequences?

- This presentation is a snapshot of what is happening in this rapidly evolving crisis and its impact investors in the closed-end fund alternative investment market – specifically for funds and co-investments targeting private equity, performing debt, distressed debt, real estate, infrastructure and real assets/natural resources
- These results are from a global Internet survey of institutional investors active in these sectors that was taken between April 15th and April 22nd

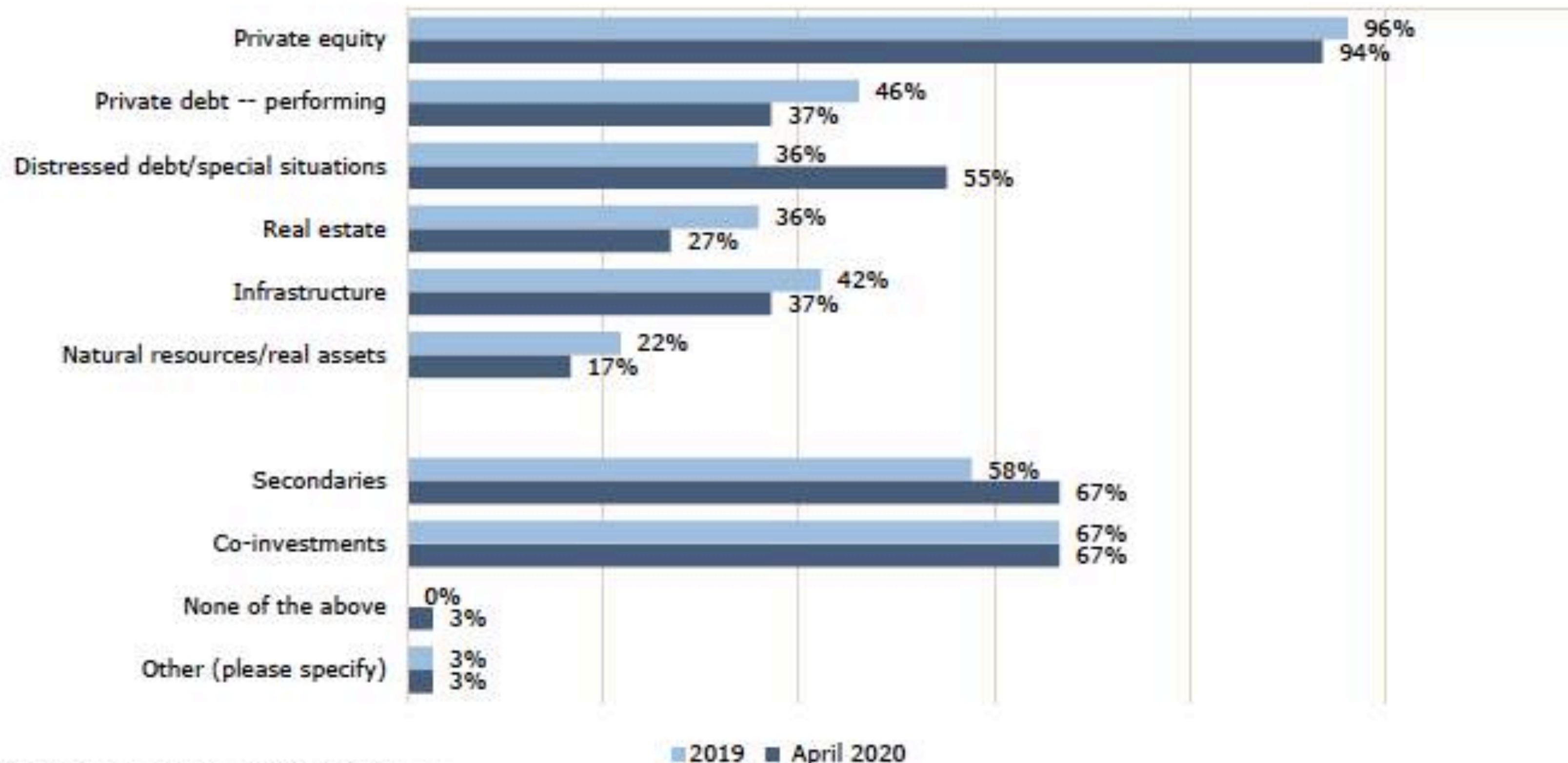




# Changes in Alternative Sectors of Interest

- Chart I compares investors' sectors of interest in 2019 compared to April 2020
- Interest in most sectors declined slightly – though private equity remained even and distressed and secondary interest increased noticeably

**Chart IV Alternative Closed-end Fund Sectors of Interest by Percent of Respondents:**

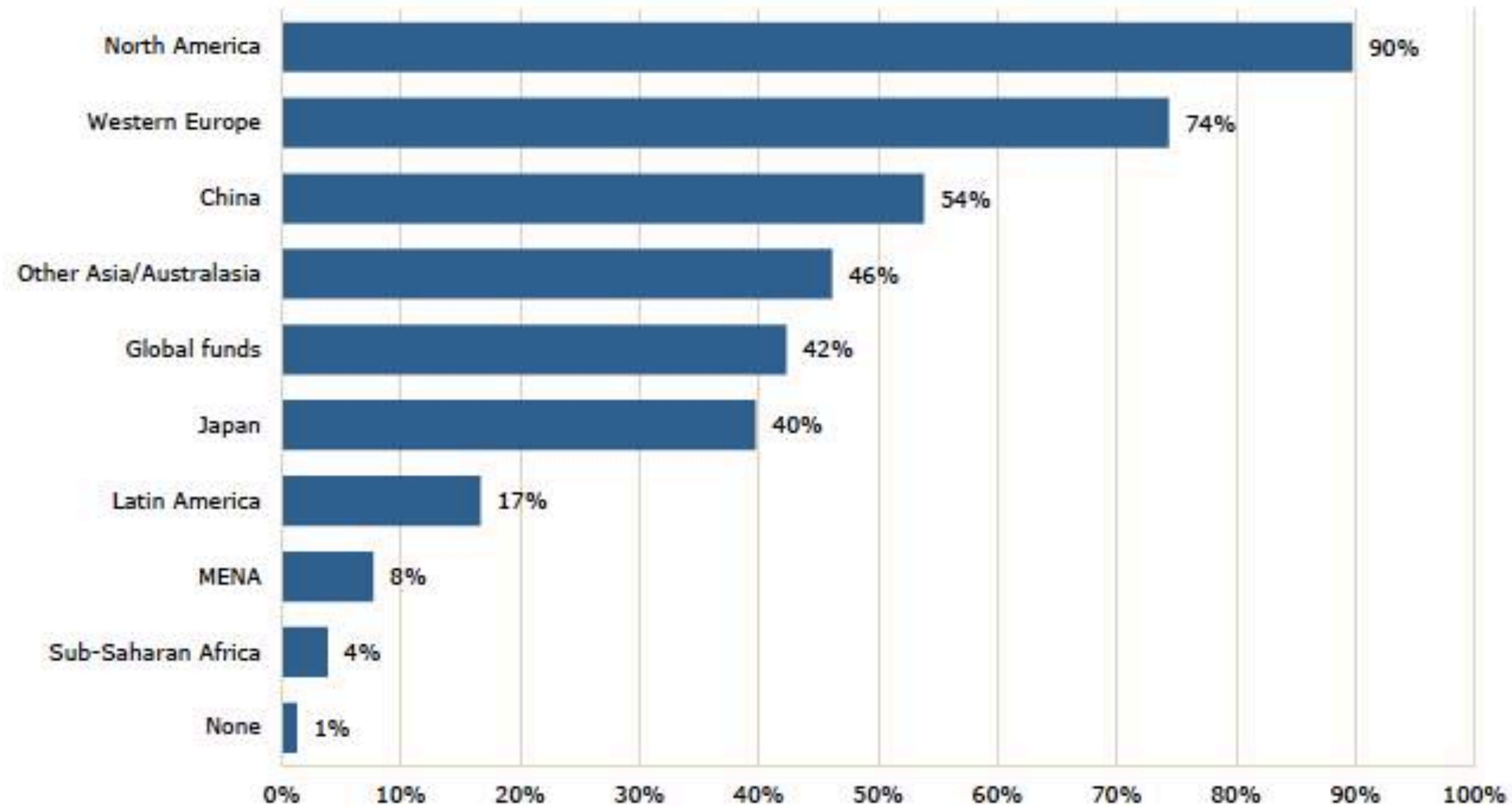




# Changes in Geographies of Interest

- Funds focused on North America and Europe were of the most interest to investors, though Asian respondents were much more focused on Asia
- There was substantial interest in China, not only from Asian investors but from respondents across the world

**Chart II Geographies of interest to my firm currently:**



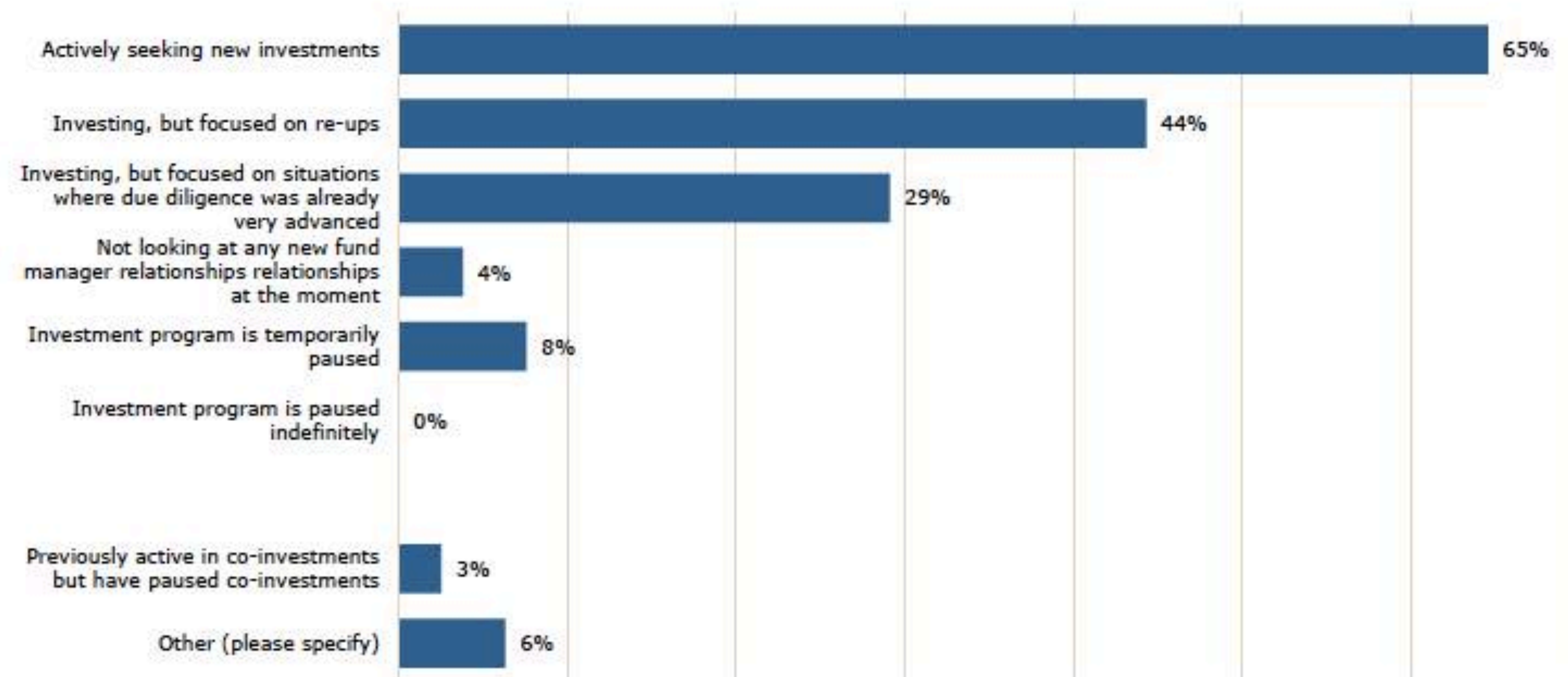




# Current Investing Status

- Though a few respondents have paused fund and co-investment programs, most of them are still investing
- However, many of them are focused on re-upping with current fund manager relationships or completing due diligence that was already advanced

**Chart III My firm's current investment status for closed-end fund alternative investing:**

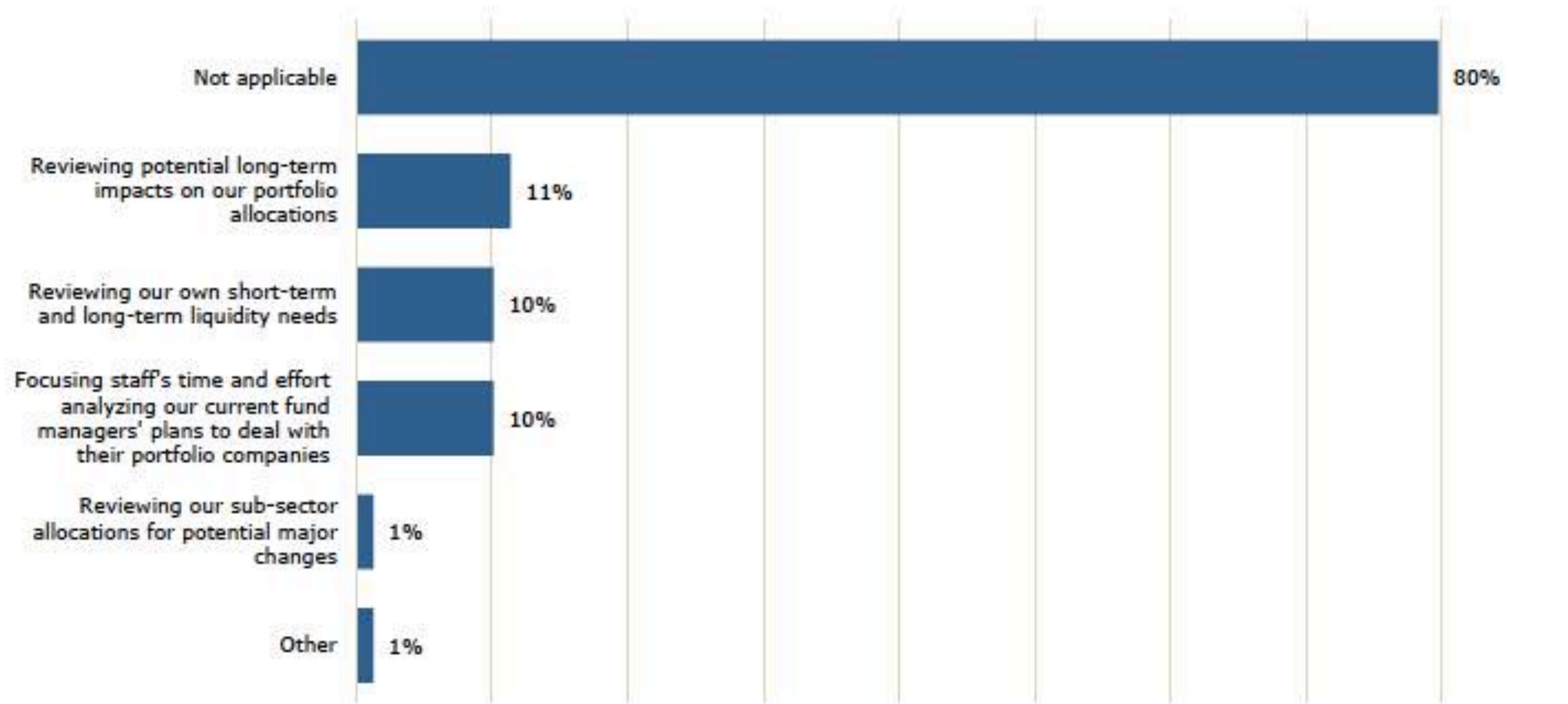




# Reasons For Pausing Investing

- For those respondents who have paused or slowed investing, there is not a dominant reason for the pause
- Notably, neither the denominator effect on portfolio allocations nor internal liquidity issues seem to be major problems at this point

**Chart IV For firms that have paused their programs --**  
My firm's greatest concerns or needs that led to the pause are (choose no more than two):







# Due Diligence Policies and Practices

- Most investors are no longer taking in-person meetings and most staff are working remotely
- Many respondents have shifted their policies that required on-site due diligence to doing so remotely –more so for fund managers that they already know well

**Chart V My firm's current due diligence policies and practices:**

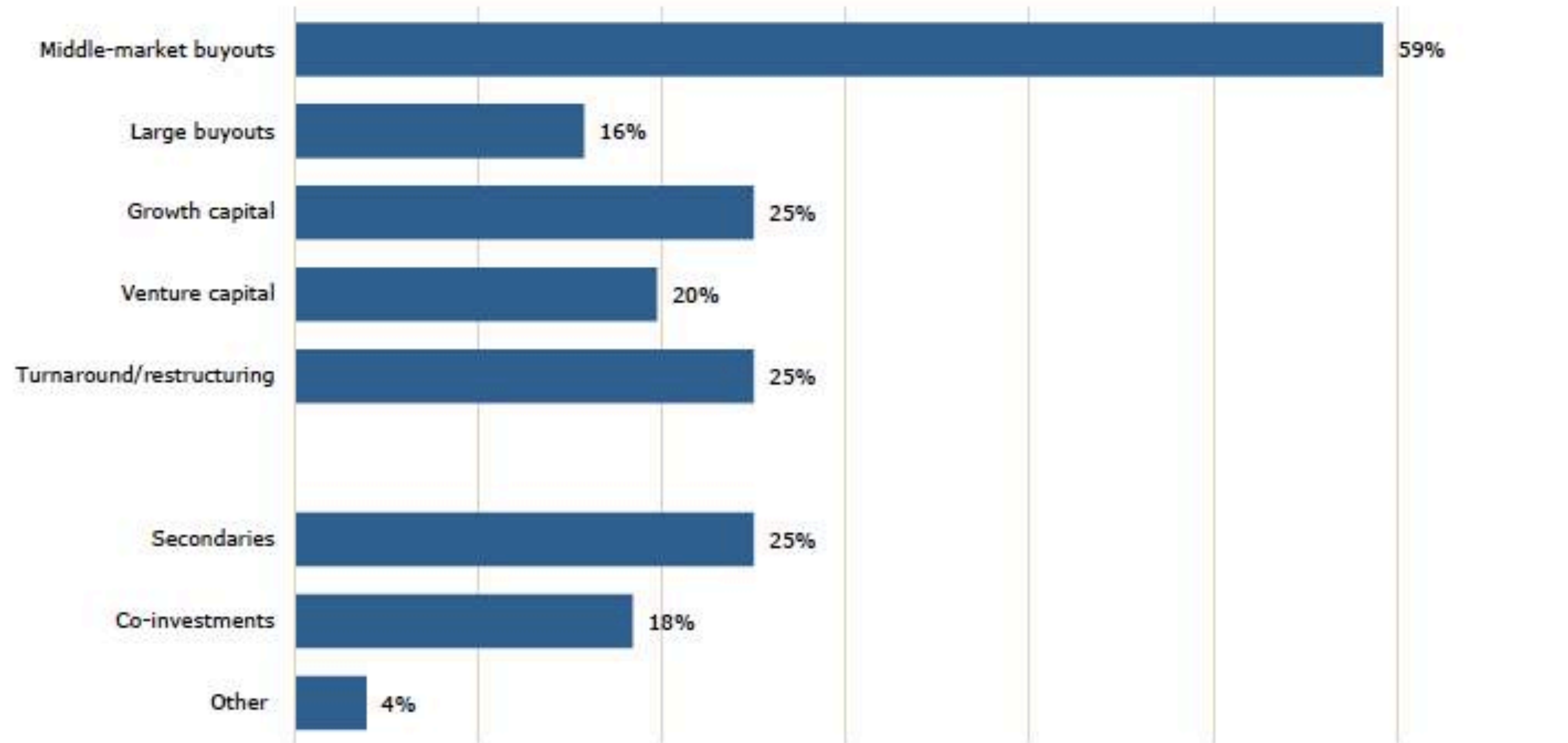




# Current Interests Within Private Equity

- Middle-market buyouts are the sub-sector most targeted by respondents
- There is significant interest in turnaround/restructuring funds but there are few of these funds in the market

**Chart VI For investors currently targeting private equity --**  
Within private equity, my firm is focused on:



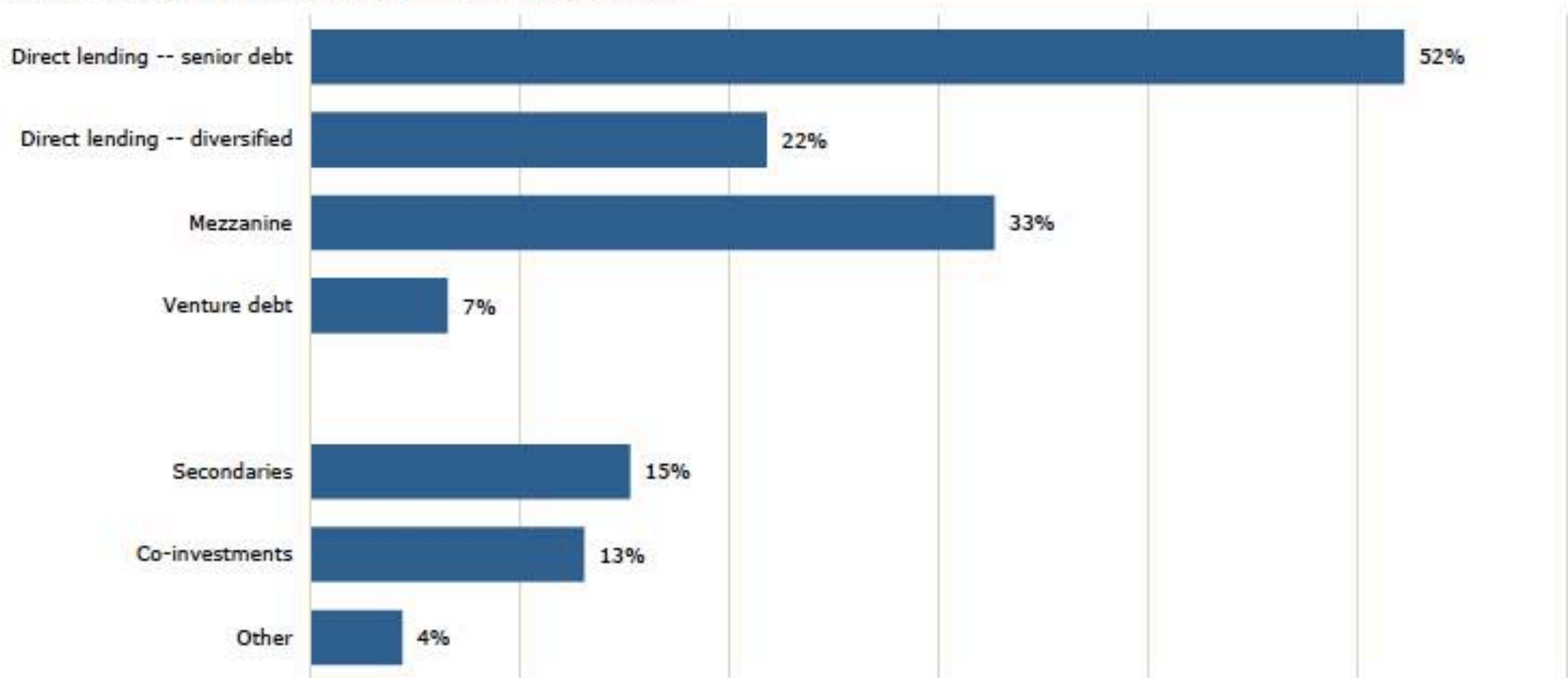




# Current Interests Within Private Debt

- Fewer investors are targeting performing private debt compared to private equity
- For those interested in the sector, direct lending funds focusing on senior debt are the biggest target

**Chart VII For investors currently targeting performing private debt --**  
Within performing private debt, my firm is focused on:

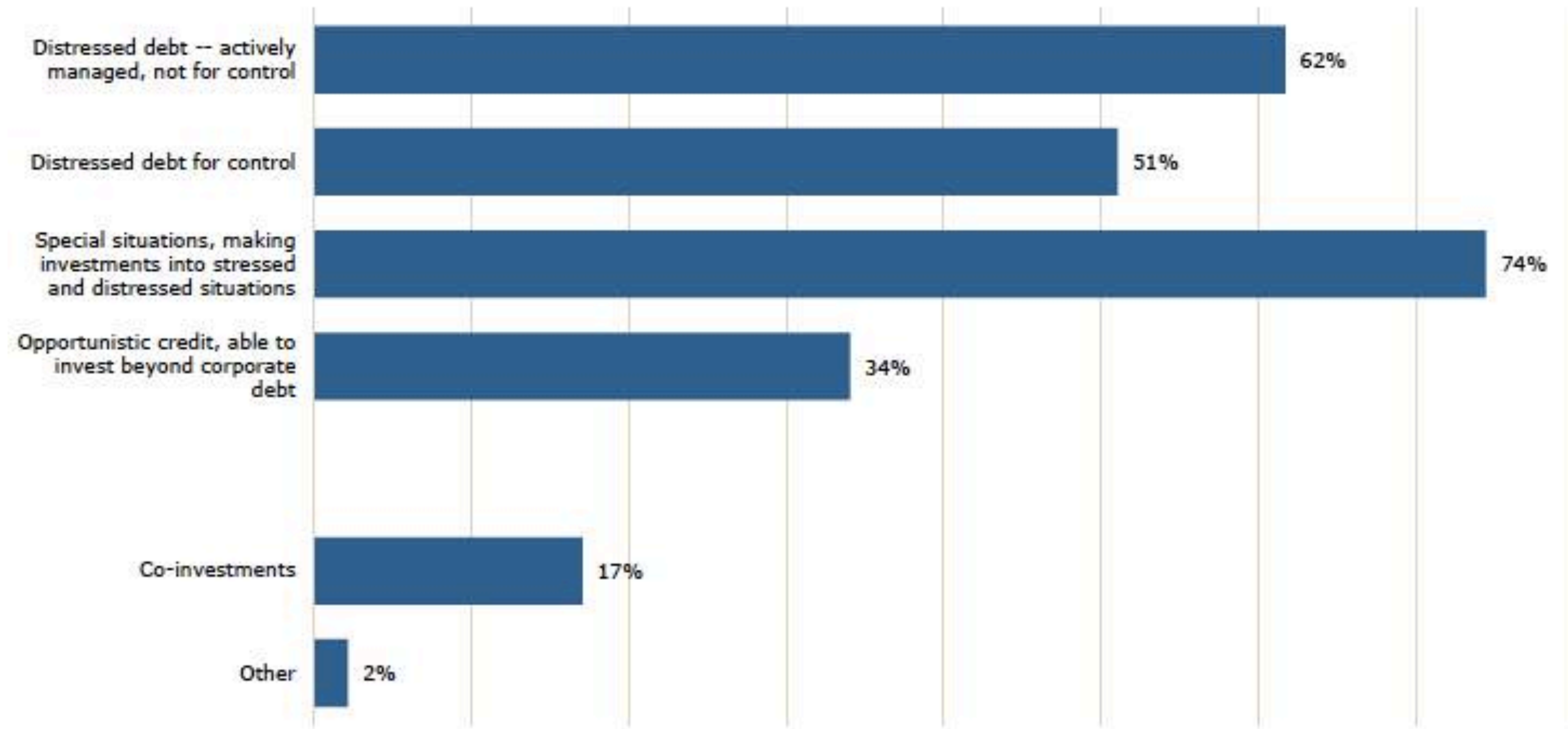




# Current Interests Within Distressed Debt Special Situations

- This sector has attracted the most new interest among respondents compared to last year, with the focus on special situations being the strongest

**Chart VIII For investors currently focused on distressed debt/special situations --**  
Within distressed debt/special situations, my firm is focused on:



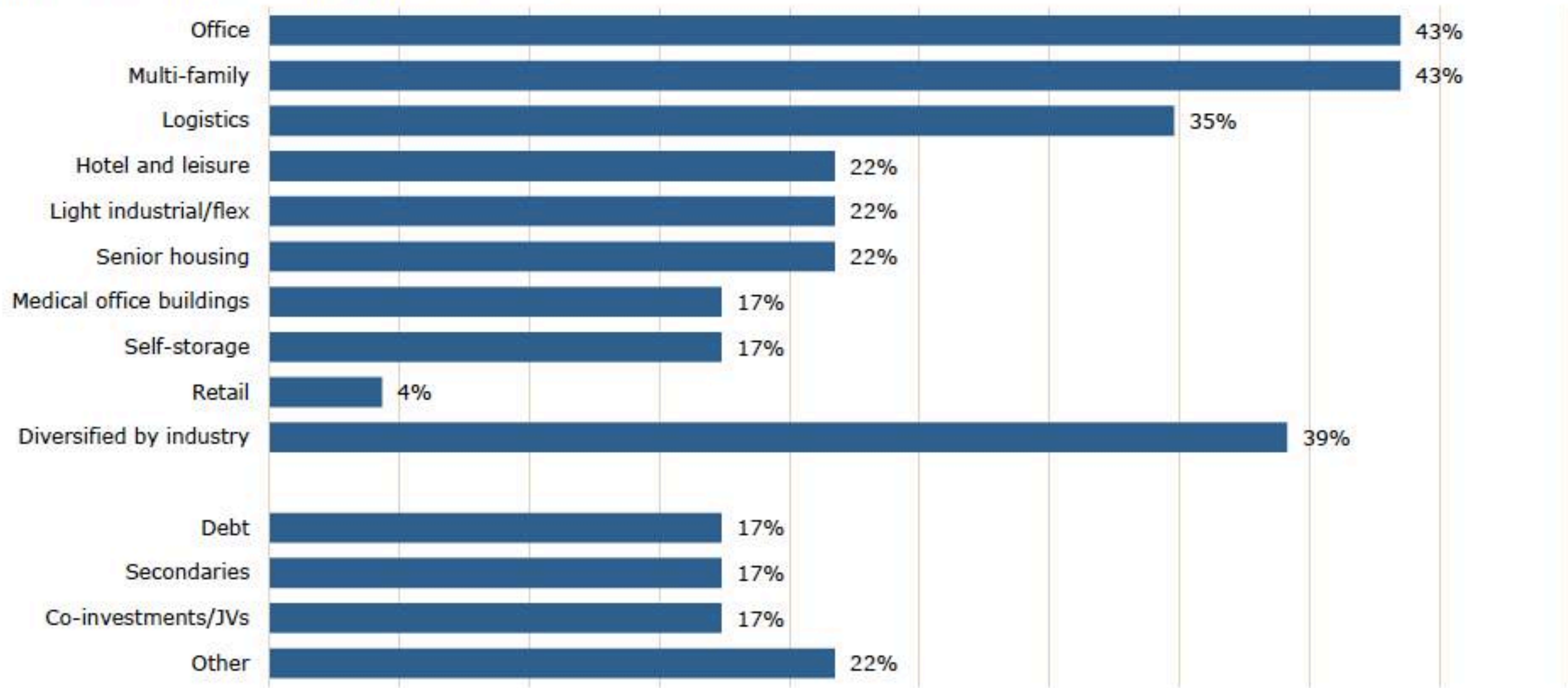




# Current Interests Within Real Estate

- Interest in closed-end real estate funds is low, but this sector attracts more direct investment than other alternative sectors
- “Other” responses are varied over a number of niche sectors

**Chart IX For investors currently interested in private real estate:**  
Within private real estate, my firm is focused on:

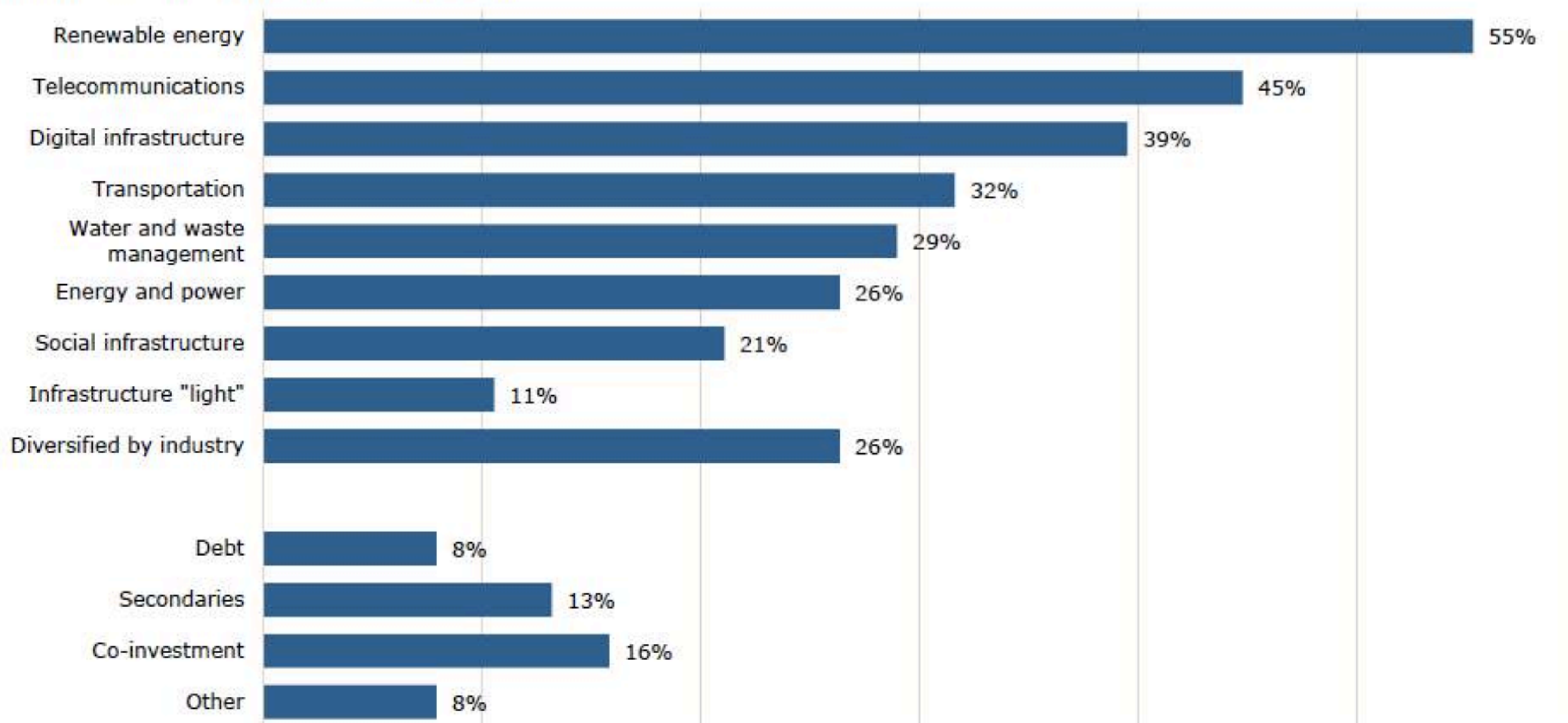




# Current Interests Within Infrastructure

- In our annual infrastructure survey in 2019, the leading industry of interest was transportation; this sector has been badly hit by this crisis, especially in aviation, ports and toll roads

**Chart X For investors currently interested in infrastructure --**  
Within infrastructure, my firm is focused on:



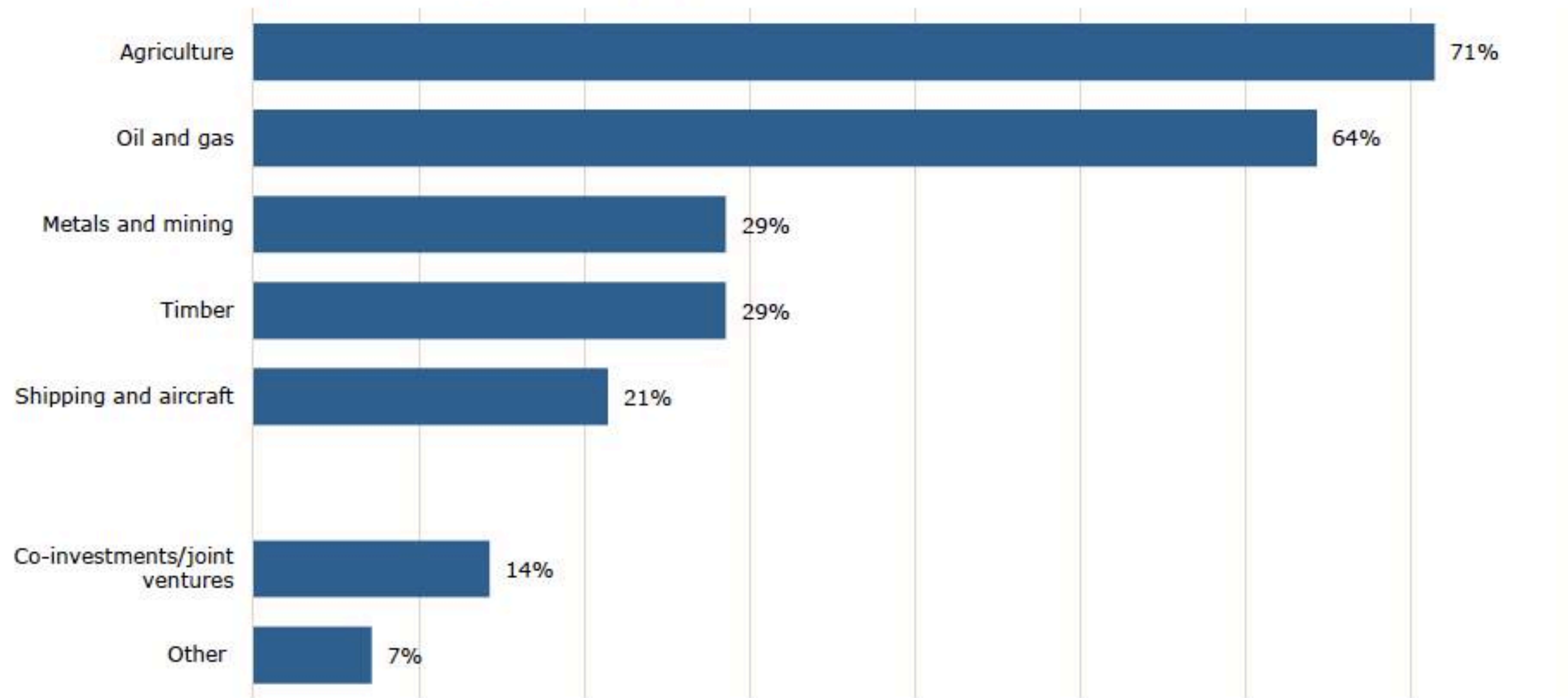




# Current Interests Within Real Assets/Natural Resources

- This is the area of least focus in alternative closed-end fund format, especially when infrastructure is considered a separate asset class
- Oil and gas historically has been the greatest area of interest, but it has been badly hit by the crisis

**Chart XI For investors currently interested in real assets/natural resources --**  
Within real assets/natural resources, my firm is focused on:

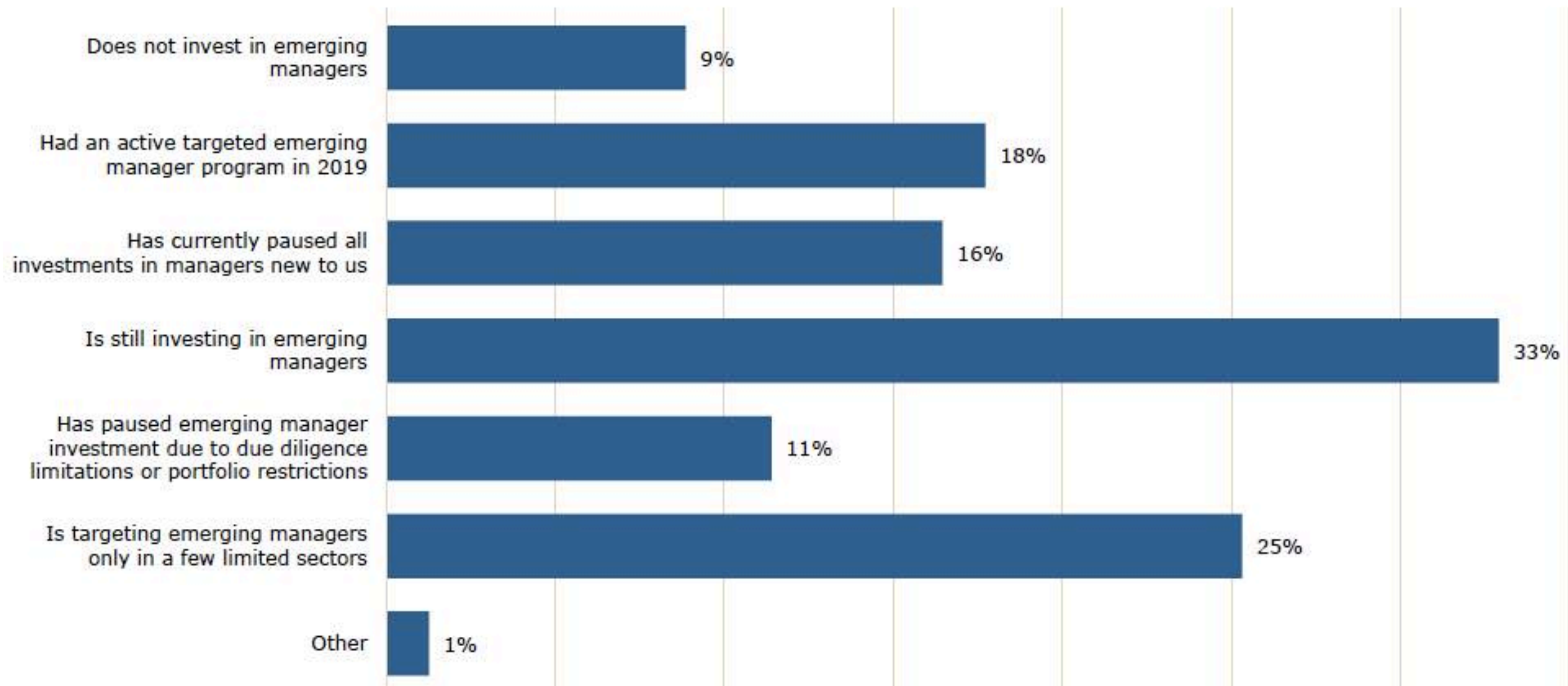




# Current Interest in Emerging Managers

- Certain investors have either paused investing or put up higher barriers to committing to emerging managers
- Emerging managers in sectors such as distressed debt, special situations and digital infrastructure may benefit from increased investor interest in their strategies

**Chart XII As far as emerging managers/first-time funds, my firm:**



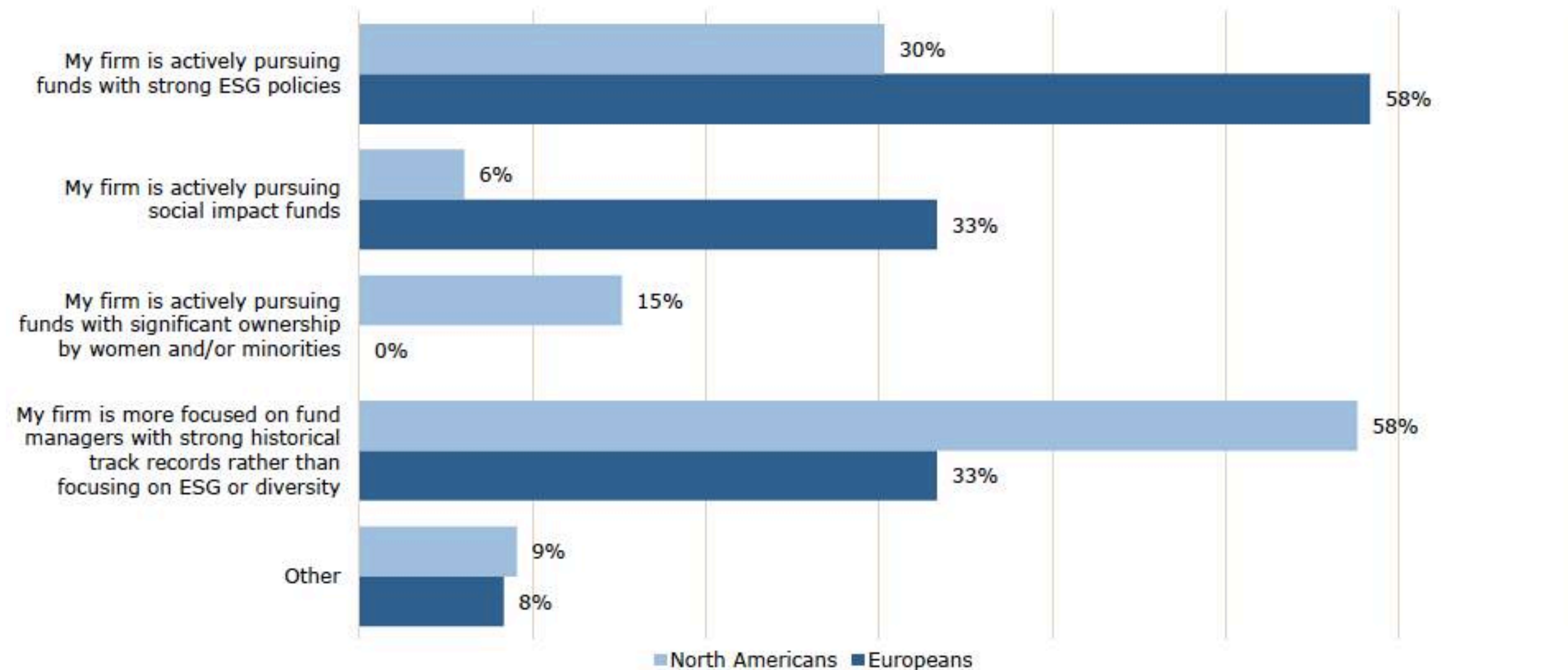




# Current Interest in ESG and Diversity: Geographic Differences

- There are distinct differences in interest between respondents from different geographies
- Europeans are much more interested in ESG policies and social impact funds than North Americans, who are more focused on diversity

**Chart XIII In the current market, as far as ESG and diversity:**

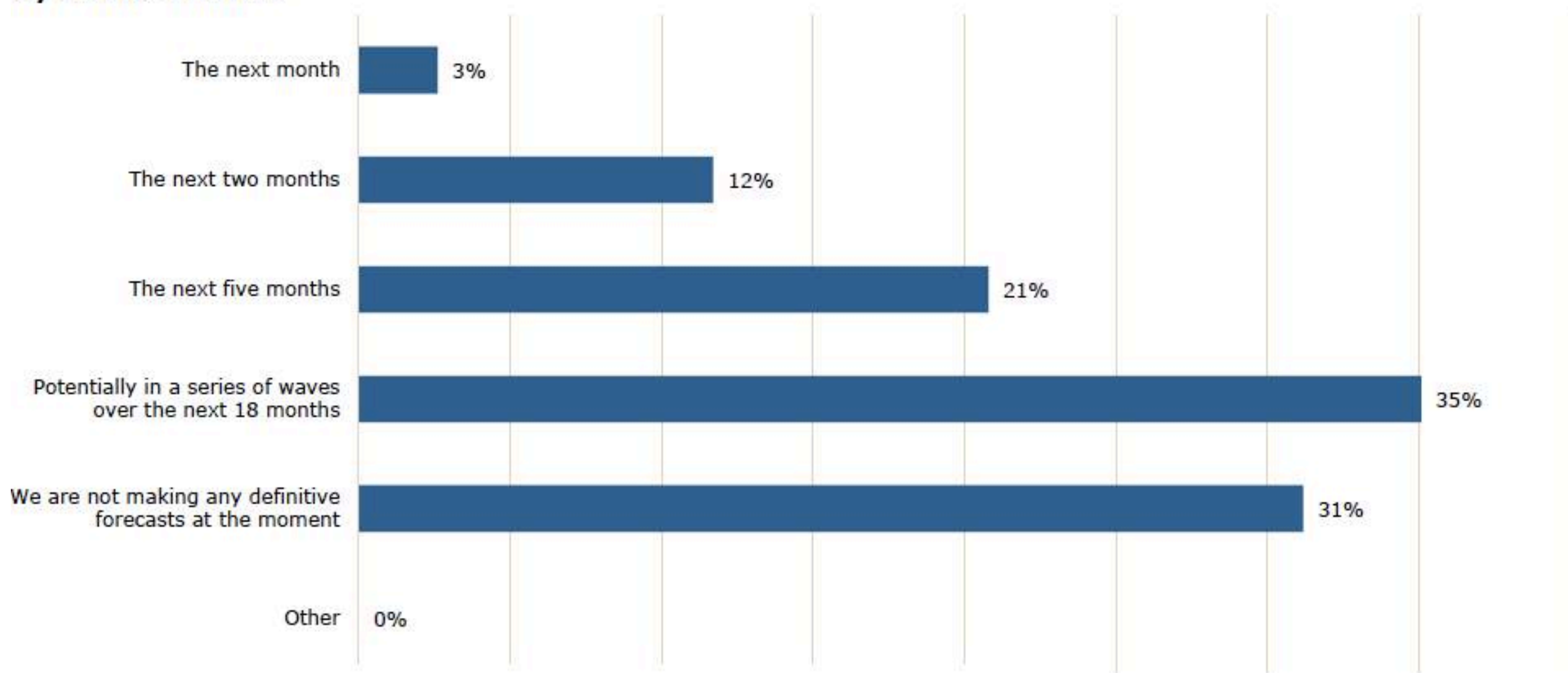




# Current Interest in Emerging Managers

- The majority of respondents feel that market disruptions caused by COVID-19 will be long-term, with 35% planning on dealing with a series of waves of up to 18 months and another 21% planning for ongoing disruptions of up to 5 months

**Chart XIV My firm is currently planning for major disruptions caused by COVID-19 over:**



*Note: Percentages in the chart do not sum to 100% as two respondents had multiple responses*

*Source: Probitas Partners' COVID-19 Impact Survey*





# Greatest Fears by Respondents Geography

- The two greatest fears overall were portfolio company liquidity and a U-shaped recovery driven by dislocations that will slow a return to normal activity
- There were significant differences in fears depending on investor’s locations; Europeans were more focused on central bank activity limiting opportunities

Greatest Fears	Overall Respondents	North American	European	Asian
That the crisis has or may dramatically impact the portfolio company liquidity needs of my fund managers	64%	72%	42%	65%
Disruptions in global supply chains and factory operations will have a significant negative impact on restarting normal operations after "shelter from home" restrictions are lifted, creating a U-shaped recovery	53%	50%	58%	57%
My firm's investments in Vintage 2017 and 2018 funds, especially those with significant exposure to industries under stress, may be dramatically impaired	27%	36%	17%	22%
That the crisis may fundamentally disrupt the nature of closed-end fund investing for a long period	19%	22%	17%	17%
That the crisis will limit my ability to source and diligence co-investments or joint ventures	19%	17%	25%	17%
Subscription credit lines and other fund level leverage programs at funds my firm has invested in may cause significant disruptions instead of enhanced IRRs	18%	11%	25%	26%
That increasing amounts of liquidity provided by central banks globally will limit longer-term opportunities in distressed and secondaries	12%	8%	42%	4%

There were several interesting comments to this question:

- Some government programs that target helping companies not backed by private equity may put PE-sponsored firms at a disadvantage
- Prolonging exits on recent vintage funds will dent the attractiveness of the asset class
- As a fund-of-funds it is now more difficult to fundraise from our investors, so we are not able to continue to invest in interesting funds
- The government keeps bailing out bad actors and doesn't allow investors that have strong balance sheets to clean house while those that were too aggressive lose their shirts; we have a moral hazard issue where there is no reward for being a well-run firm
- My emerging markets portfolio came through the GFC relatively unscathed due to zero-to-low leverage and continued demand growth; this time around, 20% of investments are directly affected and another 20% probably will be affected; low leverage helps but is not the protection it was
- Travel bans are preventing GPs from taking advantage of opportunistic situations that, in the GFC, would have got funded; there is grit in the system preventing those with liquidity from deploying it; in the GFC the opportunistic plays boosted returns while this time around they will contribute less, in a situation which looks to be worse for the existing portfolio



# Panel Discussion



# The Panel

Moderator



**Kelly DePonte**  
Managing Director  
Probitas Partners



**Jennifer Choi**  
Managing Director,  
Industry Affairs  
ILPA



**Sweta Chattopadhyay,**  
Director, Private Markets  
Bfinance



**Gordon Hargraves**  
Partner  
Private Advisors



Q & A





# IMDDA

Investment Management  
Due Diligence Association



[members@imdda.org](mailto:members@imdda.org)



[www.imdda.org](http://www.imdda.org)