ROUNDTABLE

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The true value of progress

Private equity has made great strides with regards to its gender balance over the last decade. However, much work is yet to be done, write Amy Carroll and Helen de Beer

Private equity is becoming more gender diverse – slowly. The number of women in senior investment roles at UK firms, and in their European offices, has edged up to 11 percent from 10 percent in 2021, according to the latest diversity and inclusion survey carried out by Level 20 and the BVCA. Meanwhile, women now hold 37 percent of junior investment roles in UK firms, including European offices.

Even so, progress remains sluggish, with 17 percent of firms still having no women at all on their UK investment teams. It is clear that while the asset class has taken strides in its recognition of the value that gender diversity brings, it still faces significant challenges in redressing the balance. It was this topic of conversation that kicked off *Private Equity International*'s inaugural women in private equity roundtable in October.

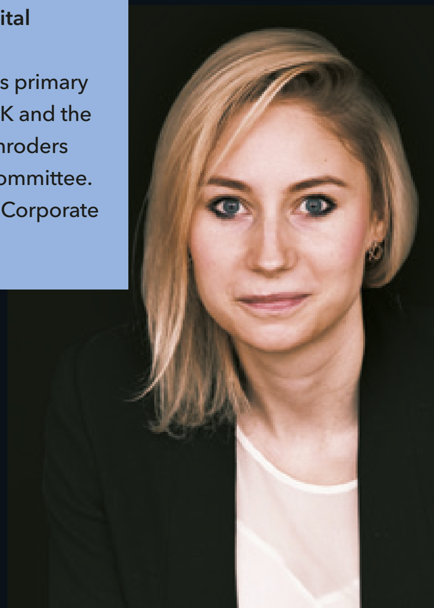
Pauline Wetter, principal at LGT Capital Partners, says it is important that young women are exposed to female role models in finance early on. "I recently sat on a PE panel at a university alongside two colleagues, and close to 100 percent of the audience was made up of male students. I found it shocking to see this still in 2023, and it made me realise how important it is to start driving diversity at school level."

For Imogen Richards, partner and head of primary investing in Pantheon's European investment team, the issue is less about attracting talent at junior levels and more about retention of women as they get more senior. "Having a family is a big part of that, of course, and I am hoping that increased flexibility around working from home as a result of covid will help drive change.

"More men are now taking up that flexible working opportunity, making it less stigmatising if a woman wants to collect her children from school and then log on later, for example. Hopefully these fundamental shifts in our pattern of work will encourage more women to stay in the industry, creating role models to inspire the next generation."

Tanja Lukas, investment director in the private equity team at Schroders Capital, says her firm has worked hard to increase female representation at senior management level to 35 percent and has implemented policies that support women at all life stages, including maternity returners, and dedicated menopause support. "Flexible working also aids gender equality in the workplace," says Lukas. "But there is always more to do, and we will achieve more by combining our efforts with others in the industry."

Meanwhile, Nicola Goll, regional head of the Americas for



Tanja Lukas
Investment director, Schroders Capital

Tanja Lukas leads Schroders Capital's primary and co-investment activities in the UK and the Nordic region. She is also part of Schroders Capital's sustainability and impact committee. Lukas previously worked at Deloitte Corporate Finance in Denmark.

Nicola Goll
Head of multi-manager private equity Americas, UBS Asset Management

Nicola Goll is regional team head for the Americas on the multi-managers investment team at UBS Asset Management, as well as a global investment committee member. She executes on primary, secondaries and co-investment opportunities across North America, Europe and Asia. Goll was previously an investment manager at Keyhaven Capital Partners.

Imogen Richards
Partner, Pantheon

Imogen Richards is a partner and head of primaries in Pantheon's European private equity team. She is also head of the firm's portfolio strategy and treasury and fund management teams. Prior to joining Pantheon, Richards worked for Anglo Irish Bank in Dublin.

Pauline Wetter
Principal, LGT Capital Partners

Pauline Wetter is responsible for the origination, due diligence, execution and monitoring of European secondaries transactions, with an additional focus on primaries. Prior to joining the firm in 2011, she was an associate with Mooreland Partners, an investment banking advisory firm focused on IT and tele-communications.

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>
> **TANJA LUKAS**
> **Schroders Capital**

the multi-manager private equity team at UBS Asset Management, believes that providing women with coaching as they progress through their careers can be effective as it boosts engagement with female talent – not only through dedicated female networks, but by offering hard skills.

She adds that there has already been a real shift towards leveraging greater diversity of thought in the industry over the past decade, and not just in terms of gender. "Junior team members are encouraged to share their thoughts at meetings. and senior colleagues have learnt to listen, for example."

Certainly, the private equity industry has evolved significantly over recent years when it comes to its understanding of diversity and inclusion. Richards, for example, points to the fact that clients increasingly have mandates to invest in diverse managers, particularly in the US. "This is definitely something we have become more conscious about as an industry."

In Europe, meanwhile, the Sustainable Finance Disclosure Regulation has provided a natural push towards greater transparency, which has in turn encouraged enhanced tracking of diversity statistics, according to Lukas. "It isn't all about the numbers, of course, but seeing something in black and white helps people realise that change is required."

"For many companies," adds Wetter, "diversity has gone from being a box-ticking exercise to something that is recognised as a source of value creation. That has taken the discussion to a whole new level and will hopefully accelerate societal change."

The LP/GP partnership

Of course, increasing diversity and inclusivity within the industry is not the only challenge that private equity is facing right now: it is also embroiled in one of the most difficult fundraising periods in memory. According to *PEI*'s *H1 2023 Fundraising Report*, the first half saw an almost 50 percent decline in the number of vehicles closed compared with the same period in 2022, while half-year fundraising fell by one-fifth to $315.5 billion.

"It is definitely a challenging environment across the board," says Wetter. "Fundraising is taking longer for most of the community, exit and investment activity is down from the peak, and we all have to thoroughly incorporate the higher cost of debt, higher wages and higher raw material costs into our underwriting. That is creating pressure, but also opportunities. Private equity managers with the appropriate tool kits for value creation and the experience of investing through cycles will likely be able to thrive in this more challenging environment, too."

Richards agrees: "This new

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> **NICOLA GOLL**
> **UBS Asset Management**

environment is certainly going to separate the wheat from the chaff in terms of who has the operating experience to manage assets appropriately, put capital structures in place and generate value. Personally, I think it is an exciting time to be in the industry, making decisions that will really make a difference."

Goll adds that while macro and geopolitical issues – ranging from labour shortages and inflation to war in Europe and concerns over exposure to China – are playing an increased role in investment committee discussions, multi-manager fund of funds platforms might actually benefit from the current dislocation. "We have seen increased appetite as smaller regional investors that might have invested by themselves in a bull market grow more cautious, therefore looking for a partner to help with private market allocations. Some are looking to outsource that responsibility and are happy with the broader diversification they are getting via multi-manager portfolios. We are also seeing exciting opportunities to co-invest as GPs look for higher equity coverage, given the cost of debt."

A rise in co-investment

Co-investment is certainly maintaining its popularity among investors, not least as a way to average down fees. "Top tier managers in particular have moved away from fee breaks and are offering co-investment instead, which effectively gets you to a lower fee overall," says Richards. "A co-investment allocation is definitely becoming a perquisite for some groups in order to commit to a fund."

The strategy isn't only about blending down fees, however: according to Lukas, co-investing also enables you to get closer to your GPs. "We co-underwrite, which is becoming increasingly important to enable GPs to get deals over the line in the current environment. We like the opportunity to work closely with our managers, with dedicated co-investment capital representing a large portion of our fundraising. That is why co-investments will continue to play a key role for us."

Co-investing alongside a new GP relationship can also be a good way to diligence a manager, says Lukas. "You get to know how a team works far better than when you are just deploying primary capital."

Goll, however, says the degree to which co-investment is desirable varies depending on the strategy. "For example, we are extremely selective when it comes to venture co-investment, but are very focused on new buyout relationships providing us with co-investment. It doesn't need to be contractual, but a clear path to deploying co-investment capital is a benefit during due diligence."

Of course, co-investment is not the only way in which LPs are partnering with GPs to help get through these challenging times, Wetter argues. "The current environment represents an opportunity for us as LPs to offer a large set of capital solutions to our GPs. This could, for instance, mean co-investment, if it helps a GP right-size an equity ticket relative to fund size in a difficult fundraising market – but it could also mean follow-on capital on year three of that investment, or a partial exit through a continuation vehicle that enables a GP to continue to back a quality asset while creating liquidity for existing LPs. True partners are becoming more innovative in the way that they provide solutions to their GPs, which has a lot of value in these complex times."

Goll adds that while cross-fund investments have always been a part of the private equity sphere, we are now seeing more GPs structuring continuation vehicles and then adding a full bitesize from the next fund. "For GPs, it is often easier to engage with an asset that they already know and trust, taking it onto the next stage of value creation or executing on a transformative add-on that has already been lined up, particularly in this difficult market. As LPs, we like the additional alignment, so if a GP commits a full bitesize from the next fund to a continuation fund and rolls the lion's share of its carry, that shows conviction."

The power of secondaries

GP liquidity solutions have been one of the key drivers of the secondaries market over the past year. But even amid its growing popularity, the LP-led secondaries market has also become active.

"The higher discount environment is now a reality for the community," says Wetter. "Fundamentally, I believe the next four years will see a high and continuous flow of secondaries activity as LPs look to rebalance their portfolios and GPs continue to use the secondaries market in order to generate partial or full liquidity."

Pantheon's Richards adds that the private equity market has also grown a long tail of assets. "We have been investing since the eighties and the reality is that most funds don't fully wrap up within the 10-plus-two years that they are supposed to, so active portfolio management is now essential. That is driving secondaries activity as well."

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PAULINE WETTER
LGT Capital Partners

"For more recently established firms in particular," says Goll, "GPs need to show more DPI if they are to successfully raise their next vintage. Clearly distributions have slowed over the past 18-24 months, and GPs are exploring how they can generate the necessary liquidity. That may not mean a full sale: it could be the asset is partially retained in the portfolio and partly sold. GPs are certainly becoming more creative in securing fresh capital to drive value creation, while retaining upside in the fund and also delivering distributions to their underlying investors."

The flourishing secondaries opportunity is being met by enhanced LP appetite. Affiliate title *Secondaries Investor* reported that capital raised for the strategy in the first half rose 29 percent year-on-year. But while there has been more capital flowing into the secondaries space, there is no question of oversupply, according to Wetter. "So much capital has been invested into private markets in the last 10 years that even if only three to five percent of that capital turns over in the secondaries market, there is still plenty to go around."

However, although liquidity pressures and the denominator effect have driven this pick-up in LP-led secondaries activity, participants are bullish about underlying LP appetite for the asset class.

"We are not seeing the same level of distress that we did during the financial crisis," says Wetter.

"LPs are proactively rebalancing their portfolios and will continue to do so as a result of the denominator effect, but also because they want to continue to invest in the asset class over the next four to five years."

Lukas adds: "Some investors have been renegotiating their private equity allocations because they recognise the benefits private markets offer over public markets, which have been so volatile. They also see that private equity has continued to perform throughout crisis years, and that the private equity market is not as illiquid as it once was,

Hiking the private equity trail

The four participants of *PEI*'s inaugural women in private equity roundtable share their experiences of joining the asset class

"I have loved my career in private equity right from the start," says Imogen Richards of Pantheon. "It has been intellectually challenging, engaging and different every day. It can be hard at times, of course. The hours can be long. But it is also extremely rewarding.

"I am lucky to have worked with some very inspiring and inclusive male managers, and I have never felt any different being a woman. Having a supportive team is essential for a successful career in this indus-try."

Nicola Goll of UBS, who entered private equity after experiencing an array of different internships covering European institutions, advertising and then banking and finance, was drawn to the balance of quali-tative and quantitative work that private equity offers. "It is enriching and intriguing to analyse teams and organisations, processes, and strategic viewpoints, and to then be able to back many of the softer conclusions up with financials and hard facts. I have never felt like an outsider as a woman, and I have had great female mentors. Our organisation is currently male dominated, but we challenge each other in a respectful and thoughtful way. If you enjoy the work and have an inclusive team structure, then your experiences are likely to be positive."

Tanja Lukas of Schroders Capital was working in investment banking in Denmark before she moved to Switzerland and joined an equity investment house. She says it has been easier to combine a fast-paced career with family life than was the case in her previous role. "Private equity also involves long hours, of course, but I have found it easier to incorporate flexibility."

Pauline Wetter of LGT Capital Partners, meanwhile, came from an entrepreneurial family and was exposed to PE from an early age. "I always knew it was an industry I wanted to go into. I started out in investment banking with a deliberate strategy of moving into the asset class. I particularly like the industry's long-term approach."

given the active portfolio management that is possible on the secondaries market and the emergence of semi-liquid structures."

Goll, meanwhile, says that, although some big US pension funds have sold significant portions of their private equity books in order to rebalance, this remains an asset class that investors really believe in.

"Operating performance, on the whole, remains strong," she says. "Rather than any outright move out of private equity, I think investors are simply trimming around the edges."

Equally, extended fundraising timelines and reduced targets are not deemed to be a matter of any greater concern. "I think the days of one-and-done are largely over," says Richards. "Fundraising is now taking around 18 months on average. From an LP perspective, I think that is positive. It gives us the opportunity to pause and ask for more information rather than being frogmarched into making decisions on a timeline that suits the GP. We welcome the change, therefore – unless it becomes too extreme, of course. We don't want managers on the road for years, diluting capital that we have already put in the fund and diverting attention away from investment. Other than that, extended timelines are not a concern for us."

Dialling back targets is not necessarily a bad thing either, according to Goll. "Most GPs have grown rapidly over the past decade, often coming back to market with new funds after just a year or two. Going back to a more normalised size and investing the fund over four or five years is not a concern for LPs. What I do think is interesting, however, is that fewer and fewer LPs seem willing to come into first closings. To some extent that is understandable, but it is something that we continue to do for high-conviction relationships. After all, you want GPs to be able to focus on investing, and not only on fundraising."

Democratisation details

While fundraising from institutional investors remains a challenge, a new source of capital is generating increasing excitement. Private equity firms are exploring more and more ways to tap into private wealth, and even the retail markets.

"There is an opportunity here for a win-win," says Wetter. "It has historically been difficult for private individuals and wealth managers to access private equity and the returns that it may offer. At the same time, in a more difficult fundraising environment, there is the potential for GPs to access new sources of capital through these less-tapped channels."

Richards believes that the "democratisation of private equity offers a great opportunity for those firms willing to invest the time and money" to make it work.

"There is a fundamental mismatch in what private investors want and what our industry has historically provided in terms of quarterly valuations, liquidity and the fact that capital is drawn down over a period of time. But solutions are now starting to emerge that can overcome these challenges, and this offers a huge amount of growth potential. Those private equity houses that do it right are going to win big, and those that don't will be left behind."

In particular, more GPs are looking at semi-liquid structures. These may be fully paid in, possibly providing a certain amount of liquidity per quarter as a percentage of NAV per share class, for example, which is making private equity more accessible to the broader public, Goll explains. "We are also seeing wholesale models emerging. GPs' focus on this topic is certainly intensifying. Most managers are spending time on the democratisation of private equity, even if they don't yet have structures in place to cater to retail or ultra-high-net-worth clients."

Schroders already has semi-liquid structures up and running and launched its first ELTIFs earlier this year in a bid to make it easier for private investors to access the asset class, according to Lukas. "A personal ambition of mine, meanwhile, is to get more female investors participating in private equity as part of this democratisation process. Studies show that women think about risk differently. But if women could start to vote with capital, then I think the private equity industry could move mountains." ■

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> **IMOGEN RICHARDS**
> **Pantheon**