Client:	Nazo Moosa
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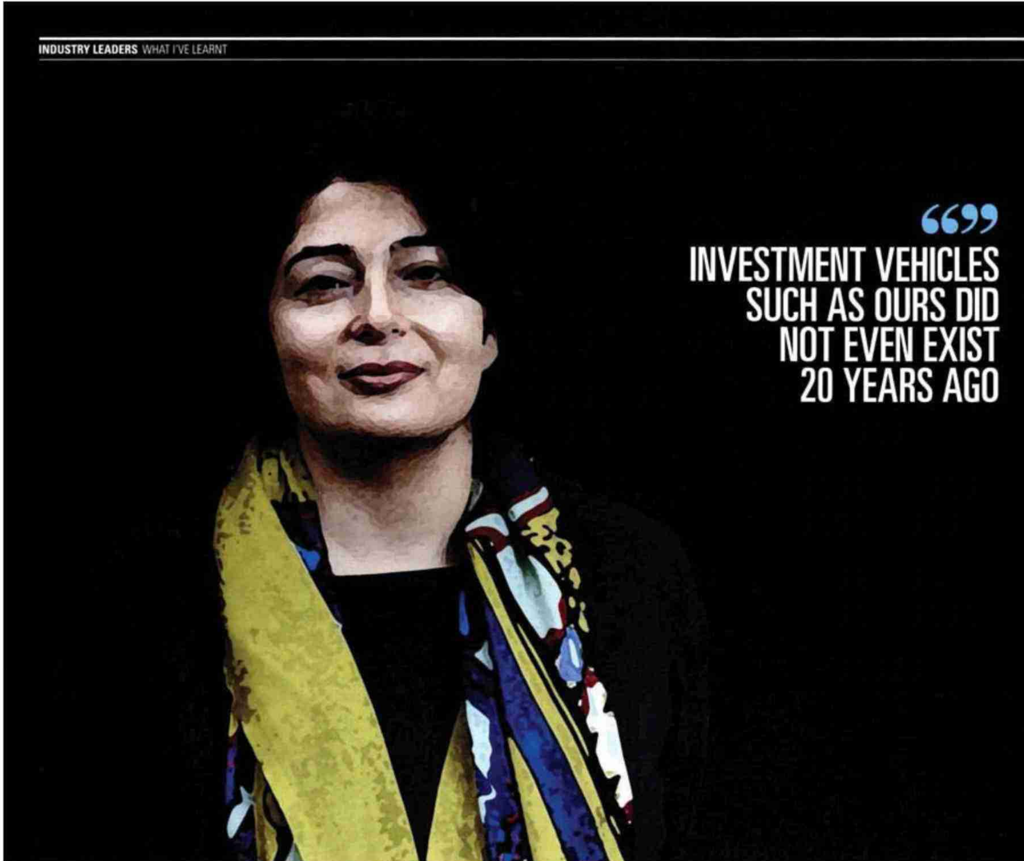

WHAT I'VE LEARNT

Nazo Moosa managing partner, VT Partners

The industry has become larger, more global and far less homogenous. Instead of just one or two allocation targets, the industry has broken into multiple segments reflecting specialisation within asset classes and geographies. The primary contributor to the rise in headline fundraising figures is the need for institutional investors to take greater risks within their portfolios for greater returns to plug the under-funded gaps, thereby allocating more to private equity.

European growth capital – my sub-segment – has grown by a factor of five over the last 20 years. Technology growth is now a far more developed sub-sector with the global private equity and alternative asset managers such as EQT, KKR and my previous employer, The Carlyle Group, having entered the segment.

Investment vehicles such as ours did not even exist 20 years ago! VT Partners is an example of this trend toward greater specialisation. VT was launched this year with the conviction – supported by industry data – that specialist strategies outperform generalist ones. VT addresses dynamic subsegments of the technology sector. We believe this trend toward hyper-specialisation will continue.

As more funds continue to be invested in the core segments such as large-cap buyouts, returns from the generalist strategies are likely to continue on their current downward trajectory. Limited partners are becoming, and will likely need to become, more comfortable with managing risk. Fund investors are also developing larger teams that enable them to expand into niche strategies that encourage the formation of more GPs.

Since the financial crisis, many LPs have consolidated the number of funds in their portfolio deploying more capital in larger, established franchises. As a result, smaller fund sizes – sub-$500 million – are not receiving capital, not because of poor returns, but because they are smaller. There should always be a healthy allocation by large institutional investors, particularly those that manage public money, to smaller funds. It is at this end where not only can great returns be generated, but where society receives the greatest benefit in terms of economic impact such as job creation.

New blood and innovation is critical to any industry, including private equity. We would welcome more LPs that support emerging managers in Europe. Industry data suggests that first-time funds outperform subsequent vintages. The US, given the deeper pools of capital and a broad base of endowments and family offices, is able to support far more maiden funds and first-time teams.

Family offices can play a key role. They hold a large reserve of capital across Europe and have historically hesitated from investing in private equity, but during the past two to three years, we have seen more enter the asset class, and the more progressive ones are investing in first-time funds.

There has been a trend toward more detailed reporting, which is generally good. The only cause for concern is the potential disclosure of proprietary portfolio company information that could lead to public disclosure adversely affecting a company's prospects. The greatest changes to the fundraising process have taken place in the last ten years following the recession.

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T +44 (0)20 7264 4700
E services@kantarmedia.com
kantarmedia.com