



# Understanding the Concerns of Investors

Investors are holding more sway in the private equity community, and they are demanding increased transparency, as well as a greater focus on fees and valuations. Not surprisingly, limited partners appear to be the main motivating force behind the push for greater transparency, and especially LPs in the public pension fund sector.

In Vistra’s research report titled “Private Equity Fund Governance: Establishing Best Practices 2017 – The Manager & Investor Perspective, 45% of LPs polled wanted “greater general transparency, including in the use of co-investment agreements”. The research also indicated that investors are requiring, and managers are complying with the demand for an increased level of transparency on the structure and operation of funds.

## Money, Money, Money

Research from Vistra also found that of the GPs surveyed, transparency around fees and performance calculations were seen as the most important trends in fund governance. The report indicated that the majority of LPs (55%) surveyed said they wanted “more transparency around fees and performance calculations”.

Certainly, management fees are on the rise, and it’s helping to spark the demand for more transparency. But in an increasingly competitive deal environment, with greater costs for deal origination and due diligence, fund managers say they’re justified in raising fees.

## The Problem with Valuations

Malcolm Pobjoy, group commercial director, North America, at Vistra, sees it a bit differently, noting that performance fees are driven off of valuations, and therein lays the proverbial rub. “There’s a concern that managers inflate values to inflate fees, especially in credit funds,” he says.

According to Christopher Elvin, head of private equity products at Prequin, private equity is also facing a challenge when it comes to pricing and valuations. “They go hand in hand,” he says. “Strong market conditions have simply led to a high point of entry.”

Asset prices are hitting record levels, and investors are balking. “It’s a very real concern for fund managers and investors,” Elvin adds. Prequin research found that the “largest proportions of investors across all private capital asset classes” pointed to high asset pricing as a major hurdle confronting the industry in the year ahead.

Increasing regulation and competition are certainly helping to focus investor interest on transparency. Johannes Nölke, Managing Director, Alternative Investments, at Vistra Germany notes, “There are two dominating factors – regulatory requirements, on the one hand, and the competition-driven, voluntary disclosure of some managers to achieve a better market position.”

### Future Trends

  <b>49%</b>  <b>55%</b> <p>believe that the most important trend in governance over the next 18 months will be implementing more transparency around <b>fees and performance calculations.</b></p>	  <b>26%</b>  <b>45%</b> <p>believe that the second most important trend governance over the next 18 months will be greater <b>transparency</b> and the use of <b>co-investment agreements.</b></p>
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## A Look Ahead

Nölke believes investors should be a bit less concerned. “Those who are longer in the industry know these market cycles and are not worried,” he says. “The key to a successful investment is to invest continuously.”

While more transparency around decision-making remains the big push, there’s less agreement on what

that really means. It’s unclear just what level of transparency that LPs will need to have in order to feel more comfortable with their GPs. Despite the uncertainty, GPs who buy into the process and who are more amenable to the conversation about transparency will likely find investors more willing to sit down at the table.

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