What do LPs want?

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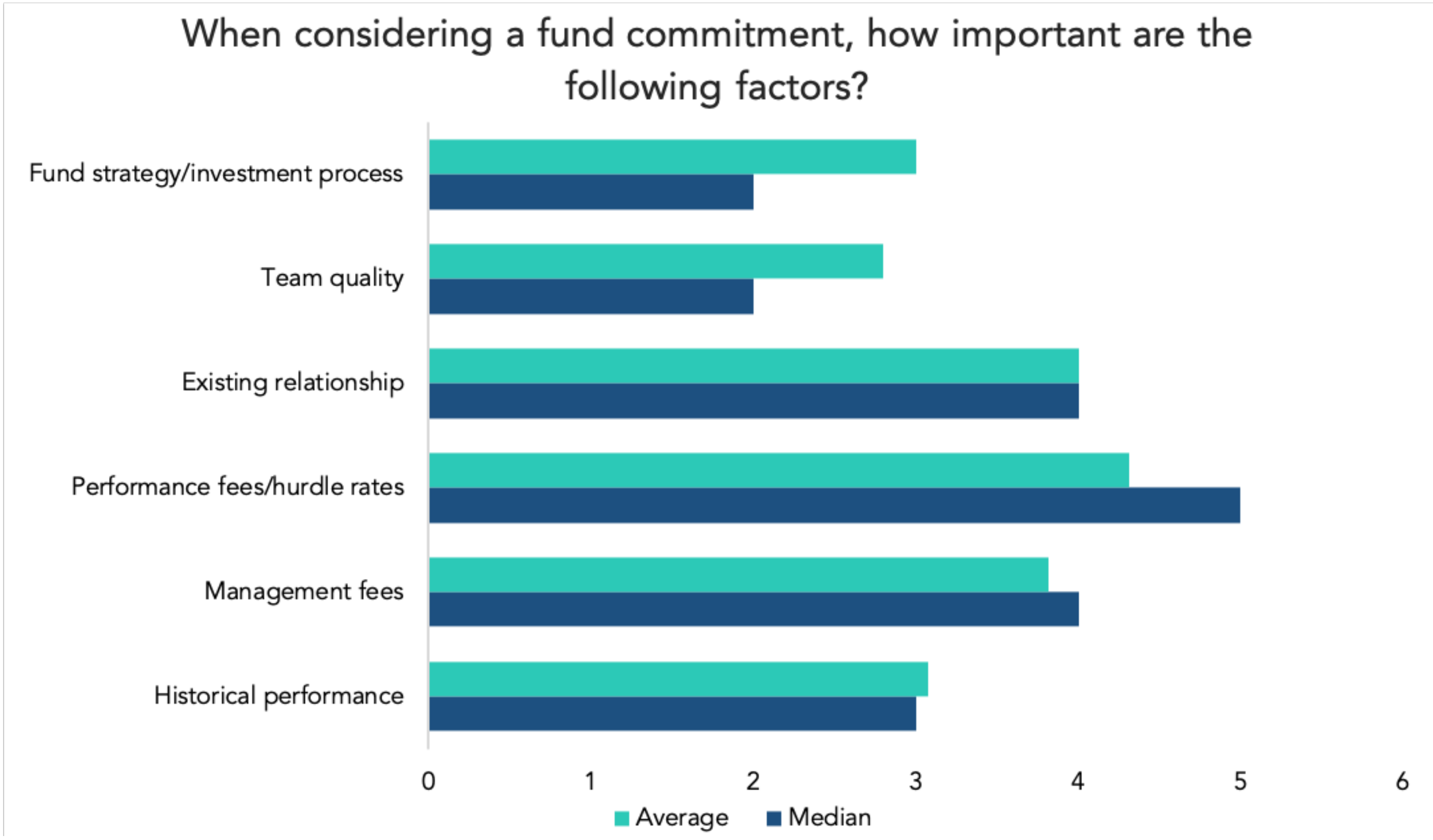

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Do they know you, and how much do you cost? Those are the two most important factors for LPs considering GP commitments, according to our new Institutional Investors Survey. We reached out to more than 50 global LPs for the study, which came back with some surprising results. Past performance is relatively low on the list. We can take that at face value, though like public opinion polls, surveys can often hide the true feelings of respondents. It wouldn't surprise us if LPs rate past performance higher behind closed doors, since there are few ways to gauge potential future performance based on glossy marketing materials. Speaking of which, it was interesting to see how relatively unimportant those marketing materials can be on prospective investors. Most firms make a point to highlight their culture and their differentiated investment processes. But those two selling points are so pervasive in the fundraising market that LPs likely discount them when they've heard the same pitches from everyone else. Can you blame them?

Costs are a different matter. Both management and performance fees were among the highest considerations. Management fees often set the table for those discussions, and discerning LPs can leverage themselves by focusing on fee structure. To another question, 87% of respondents said they would opt to pay lower management fees in exchange for higher carry (and vice versa). Higher returns carry the day, in whatever form they come. The focus on fees sheds light on falling confidence in future returns. Over the last year, about 30% of respondents have lowered their return expectations across a number of private market strategies, including buyout, growth and real assets. GPs facing skeptical LPs should take fee considerations to heart.

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