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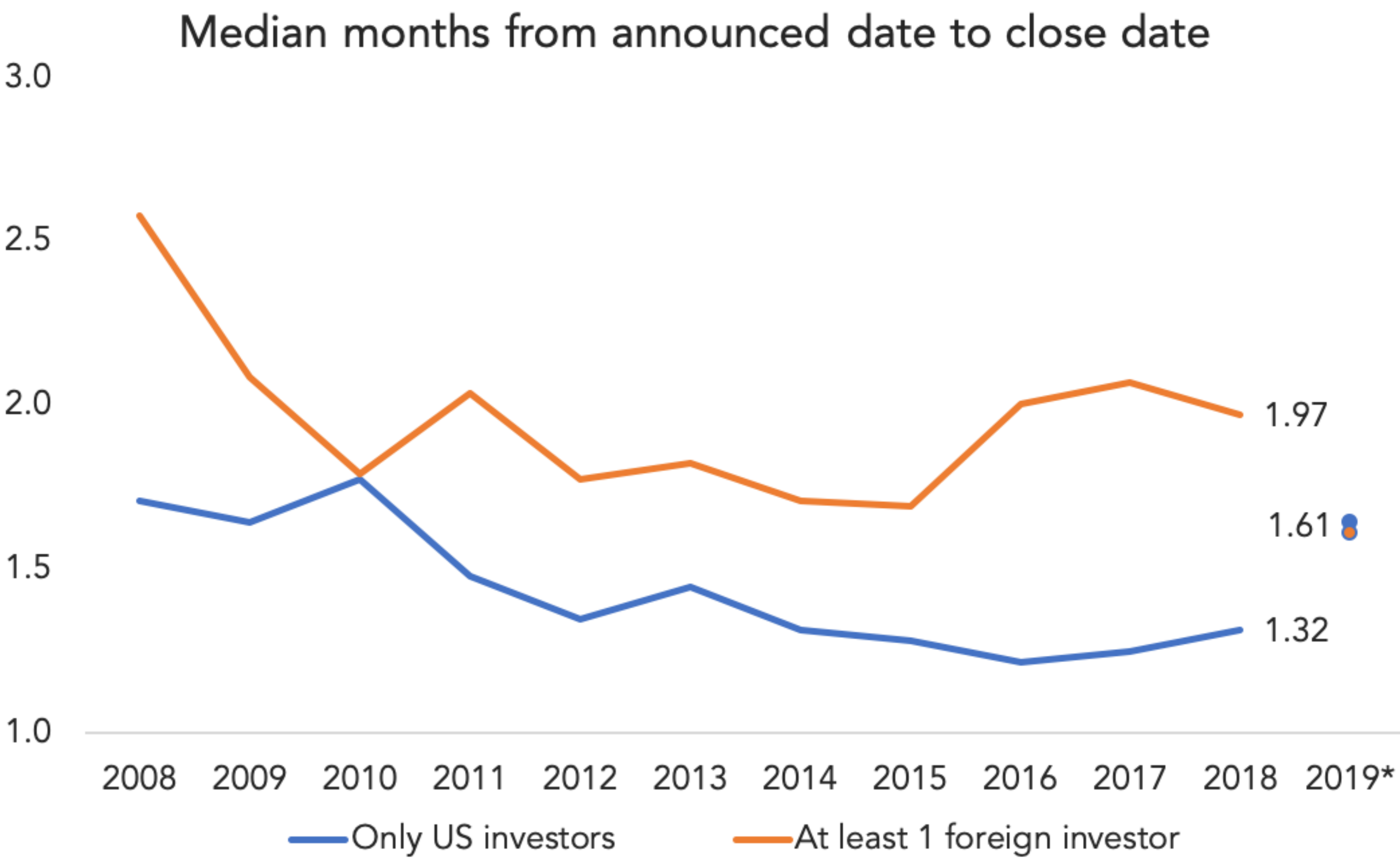
A closer look at foreign investment

PitchBook | May 9, 2019



There's a tradeoff between welcoming foreign investment and protecting national security. That's becoming a more common tradeoff to consider in the private equity world, where foreign investors are keen to get involved in direct investments. But as we've discussed in the past, those efforts are running into roadblocks from US regulators, particularly in this political climate. The Committee on Foreign Investments in the United States is the group responsible for national security reviews of any PE deals that would result in foreign investors controlling a US company. Even minority transactions that can give access to board seats and decision-making are closely reviewed.

Regulators appear to be taking this all seriously, as shown by the numbers above. PE deals with any direct involvement from foreign investors take visibly longer to close than deals with only US investors. Relatively few foreign direct investments have been explicitly blocked by the US government, but far more deals have been quietly killed by the investors themselves. Thanks to the rise in direct investments from LPs, it's likely this issue won't go away any time soon, especially with such a large number of foreign LPs chomping at the bit to participate in PE deals directly. That would inevitably include sovereign wealth funds, which have played a major role in financing the industry going back several years. Expect to see the word "CFIUS" from time to time when you read the news, because the tradeoff between security and foreign investment is only going to be discussed more in the years ahead.