Fees are still a sticking point for private equity LPs

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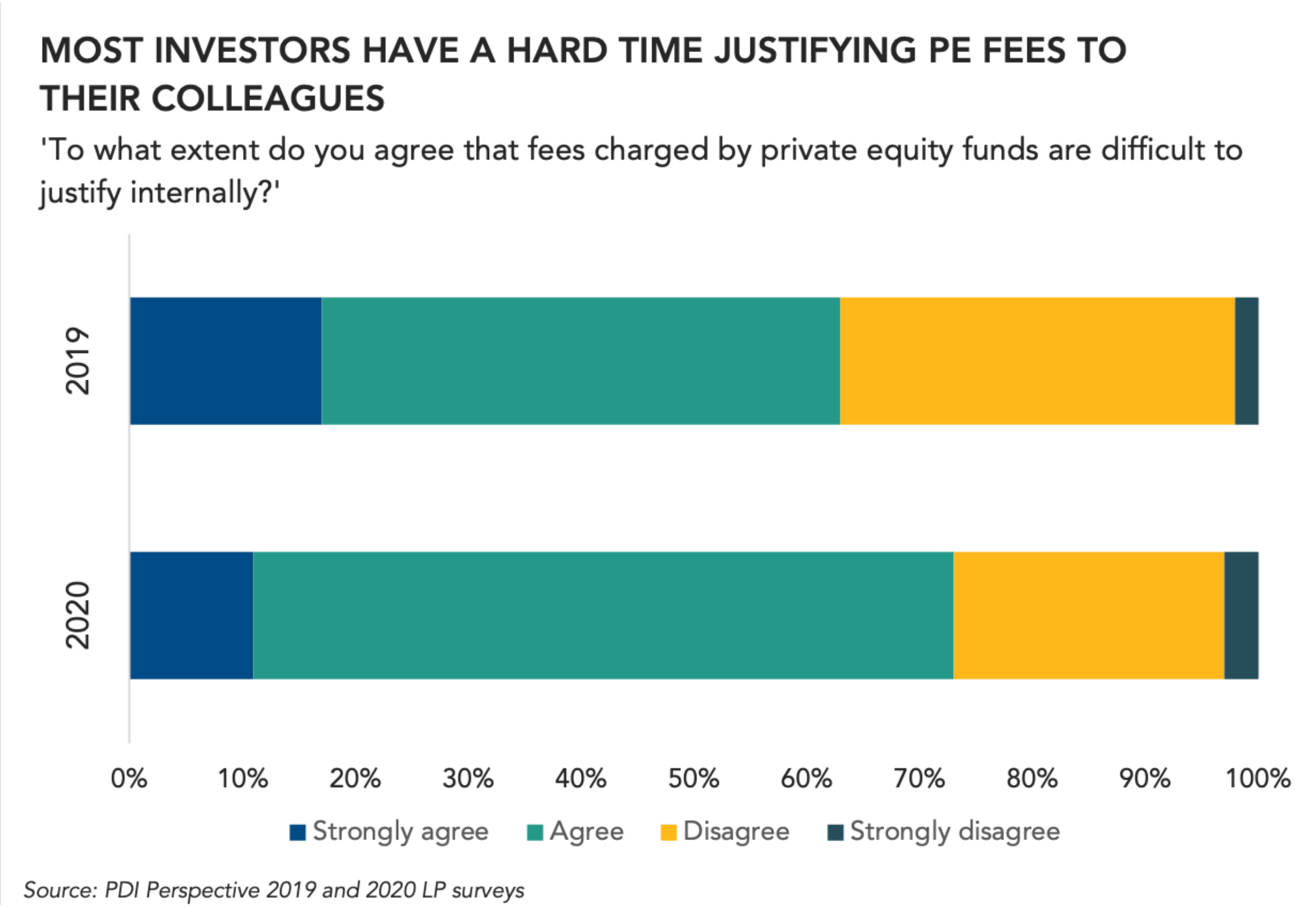

High fees have become a focus for critics of the industry, and fund managers will need to make their case to the voting public.

Almost three-quarters of LPs find private equity fund fees difficult to justify to their colleagues, according to the 2020 edition of PDI Perspectives, our annual LP survey. If it feels like you've seen this movie before, don't worry, it's not just you. In our 2019 survey, a similar sentiment emerged – only it was 10 percentage points lower than this year's 73 percent.

Of course, private credit funds have a different fee structure, but a similar dynamic may be at play given the relative cost of private markets funds in general. In a world where Elizabeth Warren, a Democratic senator that has a solid chance of becoming the next US president, has deemed private equity public enemy number one, private markets investors of all stripes should tread carefully.

Whenever fees come up, the rationale of both private equity and private credit fund managers is that the public doesn't understand the intricacies of the asset classes that they argue warrant higher fees. For lenders, chief among them is the importance of a broad origination staff.

Private equity and private credit firms though will need to make the case publicly for private equity beyond the offices of chief investment officers or in front of a board of trustees.

Warren’s Stop Wall Street Looting Act would radically change private equity, maybe even make it unworkable, and while the chances of it passing are slim, a Democratic president could likely still take steps with executive authority that could make life difficult for fund managers.

Critics of the industry may have a potent argument, though they sometimes miss the forest for the trees; there have been real success stories that the industry can tell.