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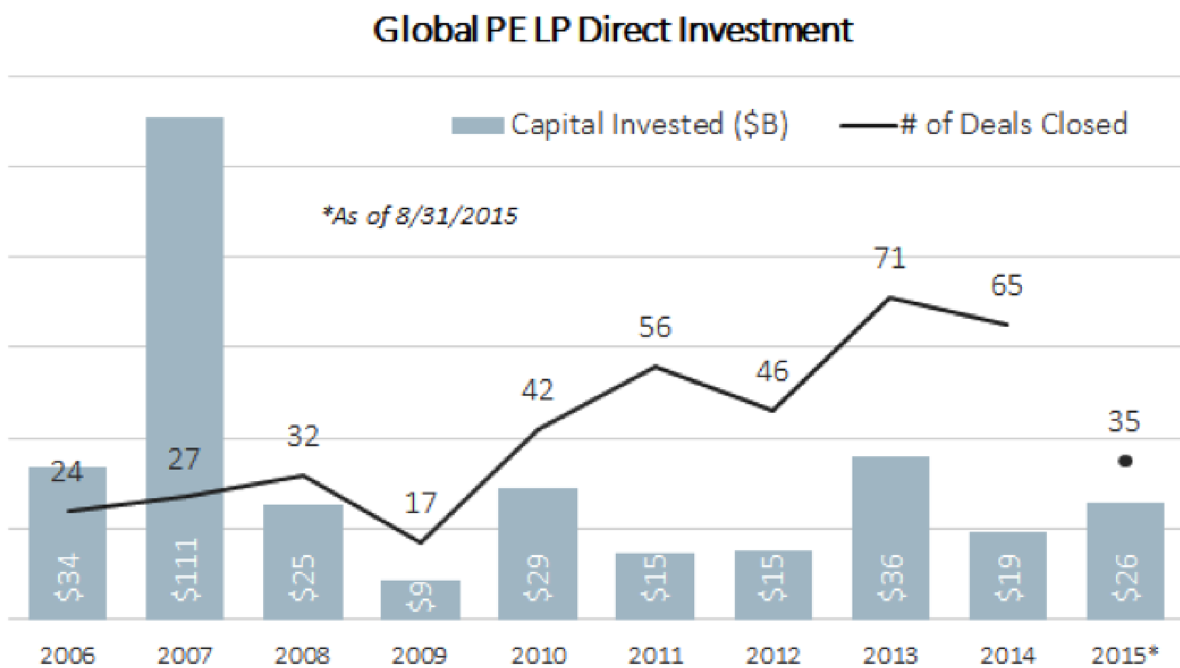
LP Direct PE Investment Signaling Shift in Industry

Limited partners have been steadily dialing up direct investing over the past few years. Prominent LPs such as CPPIB and Ontario Teachers' Pension Plan are responsible for a big portion of that increase, but the uptick in activity is unmistakable. There are several pros and cons to LPs undertaking direct investment at the outset. On the plus side, it allows them to put more capital to work, removes the burden of fees, and prompts the development of internal capabilities. On the other hand, executing direct investments requires deal sourcing, due diligence, and portfolio management—just a few of the primary occupations of general partners. Essentially it's a much more high-risk, high-reward endeavor than committing to diversified PE fund strategies, which is why it's steadily growing as opposed to exploding in popularity. Cognizant of the risks involved, LPs engaging in direct investment are focusing on smaller deals, often involving minority stakes, even in public equities.



But regardless of the cautious approach, the fact remains LP direct investing is increasingly popular. With calls for transparency around fee structures in the PE industry growing ever more strident—especially in light of the CalPERS' carried interest debacle—it's clear a shift in the PE industry is underway. LPs aren't abandoning traditional commitments by any means, but they are looking for a more active role in the asset class, whether by calling for reform or looking for more exposure via direct and co-investment.

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