Private Equity Now – Portfolio Positioning (LP Perspective)

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We conclude our series on the Private Equity liquidity crunch with this question: What do scarce realizations mean for LPs constructing a portfolio in today's environment? Having reviewed tactical tools and strategies available to investors to find liquidity, deploy capital, and select managers, we turn to building a sound and profitable portfolio.

Every limited partner is unique, but they have commonalities when it comes to assembling a long-term PE portfolio for the long-term. Consistency, balance, and matched goals and outcomes are always important. But what happens to that portfolio in a capital-constrained world with depleted cash in-flows?

Vintage concentration is one problem that stems from LPs being unable to deploy dollars consistently in all markets, regardless of distributions and denominator effect. But investing continuity and vintage diversification are key to optimizing portfolios. Neither trying to time the market with fund commitments nor standing on the sidelines are great options. Greedy over-commitments or fearful under-investments can skew a portfolio to miss LP objectives. Discipline and consistency across vintages are key; a lesson equally applicable to underwriting a GP.

Since 1998 across three major economic cycles, North American buyout funds in "recession vintages" have generated over 250 basis points of IRR outperformance compared to the broad fund universe, according to *Burgiss*. Times of turbulence can create unique and attractive buying opportunities for GPs. While a confluence of factors contributed to the LP realization rut, you just have to keep investing. As the legendary investor Albert Einstein famously said: "The most powerful force in the universe is compound interest."

Top managers place a premium on long-standing investors who provide a reliable source of capital. Living up to this standard gains favor with GPs who make decisions on things like allocation sizes, advisory board seats, or even the ability to participate in an oversubscribed fund. This can lead to priority opportunities to deploy direct capital such as co-investments, assuming the LP even has co-investment capital available. Stable and dependable capital sources are the foundation upon which a strong LP house is built.

In a world fraught with macroeconomic uncertainty, geopolitical turmoil, and evolving capital markets, LPs must take a consistent, balanced, and tailor-made approach to portfolio construction. As we have seen, a distribution dilemma can create long term program issues for investors beyond an immediate liquidity shortfall. Tools are available to get cash in the door today so that a stable and healthy portfolio can be constructed tomorrow.

This concludes our Private Equity Now series – The Distribution Dilemma. GPs and LPs are navigating an ever-evolving landscape and the pendulum of power continues to swing. Cash, as always seems to be the case, remains king.

? *From the Editor: The Lead Left will be on break until the week of January 6th. To all of our readers, best wishes for a safe, healthy and restful holiday season.*