

# KEYNOTE INTERVIEW

## LP-GP relations enter a new paradigm



*Factors such as fund structuring flexibility and reporting excellence are becoming more important for LPs when selecting GPs, says **Edouard Eloy** of BNP Paribas' Securities Services business*

### **Q** Amid slow distributions and soft fundraising, how are LPs approaching manager selection?

Investor confidence remains strong. It's important to keep in mind that 96 percent of LPs aim to increase or maintain their exposure to private markets, according to data from Collier Capital.

LPs are, however, adapting their allocation strategies. Liquidity continues to be a priority, which has boosted demand for strategies that generate cash, including private debt and private infrastructure. There is also a geographic shift in the market. We see a rise in investor appetite for exposure to

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European private markets in the face of US uncertainty. More US managers are setting up funds to invest in Europe.

Overall, LPs are looking for more than just gross performance. They are turning to private markets to diversify their portfolios, increase their flexibility and secure downside protection.

### **Q** In that context, how are smaller GPs adapting to remain competitive?

Smaller, mid-market GPs have to provide something different to the larger platforms, which have grown their assets under management significantly in recent years. Specialisation has therefore become more important than ever. To remain relevant to LPs, managers need to present niche, industry-specific strategies that differentiate them from the multi-asset managers.

### **Q** Manager consolidation in private equity has accelerated. Has this been driven by what LPs want?

The emergence of multi-strategy firms has been one of the main drivers of

manager consolidation. LPs value the opportunity to commit to a single platform that provides exposure to a mix of investment strategies. Consolidation has been the most efficient route for GPs to provide LPs with this choice.

There has also been a rising number of mergers between high-performing managers, who see the benefits of combining their respective LP relationships to form a larger, deeper LP base.

That said, there is always a pendulum effect between consolidation and spin-offs. Managers consolidate, then teams might see new market opportunities and decide to spin-off.

### **Q To what extent is a GP's operating model becoming a factor in LP manager selection?**

As the market has grown, GPs have developed customised fund structures and products to meet specific LP requirements. This is why we are seeing such a blossoming of multi-jurisdictional, multi-structure vehicles with more complex fee structures.

A GP can now offer each LP a wide range of master fund, feeder fund and SPV structures, and match the right structure to regional tax and regulatory requirements. This is a positive step for LPs, who can take more control of their investments by choosing the fund structures that best suit their needs.

However, offering this flexibility comes with its challenges for GPs, who have to track and account for a greater number and variety of funds and investment vehicles. That puts the GP's operating model under investor scrutiny. This is where an integrated and robust technology setup and strong support from a servicing partner are vital in helping GPs monitor the myriad fund structures LPs want to use and provide the relevant reporting accurately.

### **Q What do LPs expect with respect to reporting today?**

Reporting expectations have evolved significantly. LPs used to be happy to

commit to a fund and wait patiently for distributions. Quarterly or even semi-annual reporting sufficed.

Now, LPs are managing their portfolios more actively and want direct access to fund values through web portals. They demand reporting that is more transparent, more frequent and more granular.

In our case, as an administrator providing reporting for both the LP and GP, we have a key role to play in providing LPs with calculations, for example, of distributions and management fees, so that they have their own 'source of truth'. LPs are asking for much more detailed look-through analysis to assess potential concentration risks in their underlying investments. They are also starting to include granular investment reporting into their management reports, which can be a key part of negotiations between LPs and GPs.

Considering the growing competition, especially for small to mid-size GPs, providing this reporting is no longer a nice to have. It's essential.

### **Q What does the rise of evergreen funds and continuation vehicles mean for the LP-GP relationship?**

Evergreens and continuation vehicles are models that provide flexibility. LPs can use them as tools to manage alternative asset portfolios proactively.

In terms of evergreen funds, we are seeing increasing use of so-called 'run-off' and 'rolling vintage' models designed specifically for institutional investors. They enable the LP to keep capital fully deployed, recycle capital more easily and reduce the operational burden of having to commit capital repeatedly and undergo onboarding processes for separate funds.

A CV offers similar optionality, facilitating longer hold periods for assets where LPs anticipate further growth and want to retain exposure.

These structures mark a shift away from the patterns of the traditional, closed-end fund model that GPs and

LPs are familiar with. With continuous and long-term subscription and capital recycling processes being commonplace, we are now in a world where the LP-GP relationship needs constant and proactive focus from both sides.

In this world, LPs can have more consistent control and influence over their investments. For example, with CVs, LPs need to have a full, transparent view of the pricing, valuation process and all relevant disclosures in order to make an informed decision as to whether to fully exit the original fund or to 'roll over' their stakes. With some evergreen structures, distributed capital is not automatically re-invested and LPs need to actively recommit the distributed capital at regular intervals.

This fundamental change to the LP-GP relationship is not without its complexities. GPs need to invest heavily in their people, technology and infrastructure in order to manage liquidity flows, reporting and fee calculations for these funds.

### **Q How do you see LP-GP relationships evolving over the next few years?**

I would say that we are seeing an evolution, not a revolution, of the market. This is an evolution which is only heading in one direction: stronger and deeper relationships between GPs and LPs, and their supporting ecosystem. The market is becoming more and more efficient. LPs now have the tools to dig deeper into the track record and performance of GPs, and AI will only accelerate that trend.

Then, given the increasing allocation to private capital globally – notably in certain countries where regulatory and government reforms are pointing in this direction – it will be interesting to see whether retail investors will be satisfied by the performance, the returns and the fees amid these changing relationships. Only time will tell. ■

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