



**PRIVATE EQUITY**

# **Experiences With and Lessons From a Long-Term Institutional Fund Portfolio**

**STEPHAN M. ILLENBERGER**

**AXA Private Equity**

# Inappropriate Attitudes

"Private equity fund-of-fund investment provides easy returns – just spend the money and let GPs do the work."

"Once you have committed you cannot change a thing."

"Invest, wait and hope."

"Diversify and you take out the risk of Private Equity investing".

# Attitudes better served

Private equity is about constant, diligent investing and constant management to avoid unexpected problems.

Private Equity is a long term, illiquid asset class in a non transparent market:

- Difficult to get in
- Difficult to get out
- Requiring sophisticated decisions with long term consequences
- Demanding to run.

When things go bad, react and influence immediately.

Only the disciplined, hard working and innovative investor has a chance of long-term first-class results.

# Set-up of programme

- Definition of asset mix most appropriate to individual risk / return profile
- Hedging of risks costs additional fees / performance
- Definition of the size of the Private Equity programme planning 7-10 years ahead (through cash flow projections or other risk management methods).
- Definition of clear investment procedures and criteria is time consuming but help to formulate a strategy.
- Construct an appropriate investment structure (e.g. with appropriate account management and decision making processes, tax implications, external control procedures etc.).

# Diversification

- Diversification is a key element to a good performance of a long term Private Equity programme
  - by type
  - by region
  - by time

-> bottom up diversification is key
- Over weighting of one owns country or continent often occurs.
- Although individual risk return preferences can have effects on weightings, larger clusters of any kind should be avoided.
- Private equity investing is about constant investing.
- Avoid following the herd into club deals

# Selection

- Knowing the market and having own views reduces the risk of trend investment.
- Select GPs who focus and will sustain the strategy of the fund for a long term over several generations.
- Historical performance does not guarantee future gains, esp. if fundamentals in a new fund generation change.
- Thorough and rigorous due diligence on managers and fund strategy is essential for success.
- Importance of reporting standards and back office quality of a GP are often underrated.

# Active Management

- Constant development and benchmarking of portfolio to counter-react any style drifts of GPs (top-down vs. bottom-up view).
- Highly important is an own detailed view on the underlying assets and potential performance of the fund.
- In order to discuss and influence you have to be "eye to eye" with GPs, needing to know the institutional, LP and GP level.
- Good GPs are open to sensible discussions if LPs have valid points and arguments.
- It is often useful to exchange views with other important and knowledgeable LPs .

**[www.axaprivateequity.com](http://www.axaprivateequity.com)**

**[stephan.illenberger@axa-im.com](mailto:stephan.illenberger@axa-im.com)**

**direct: +49.69.900.25-15666**