TEXAS A&M UNIVERSITY
School of Law

"TAMU Law Answers" Webinar Series

LEGAL ISSUES IN THE AGE OF THE CORONAVIRUS

"Private Equity Firms and the Pandemic: Key Players, Key Concerns, and Tough Decisions"

Presented June 16, 2020

Panelists:

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- Sharmila Kassam – Of Counsel, Michael Best & Friedrich, LLP
- Marianne Scott Dwight – Of Counsel, Michael Best & Friedrich, LLP
- Moderator: Neal Newman – Professor of Law, Texas A&M University School of Law

While the panelists are all attorneys, they will be discussing the law generally, and nothing in the webinar should be considered as legal advice. Attendees should consult their own legal advisor to address their own unique circumstances.

TRANSCRIPT:

- Good afternoon, everyone. We're going to be getting started very shortly. I'm looking at the participant number. I'm just letting it climb up to a critical mass, and then we'll get started very shortly.

Well, good afternoon, everyone. And welcome to what may be our sixth, seventh, eighth, webinar in a series of webinars that has revolved around either the CARES Act, or the pandemic, or both. I will say I am very excited about today's topic and our esteemed group of panelists.

However, before I do any more talking, let me get this disclaimer on the table and out the way. While all of our panelists are attorneys, they will be discussing the law generally. And nothing in the webinar should be considered as legal advice. Attendees should consult their own legal advisor to address their own unique circumstances.

So now I have got that out of the way, let's get into it. So today's topic is Private Equity Firms and The Pandemic-- Key Players, Key Concerns, and Tough Decisions. So just to give you all an overview of what we're going to talk about in this next hour, I'm first going to give panelist introductions. And then I'm going to give a quick private equity overview, just for some of us who may be less familiar with how private equity works, just a quick primer to make sure we're all calibrated on the same page.

And then we'll get into the content, which will be very interesting. What our panelists have is they did a COVID-19 impact survey. And the gist of their talk is going to revolve around the results of that survey. So it's a lot about how the private equity industry is managing in this COVID-19 environment. So that'll be very interesting. And so the gist is going to be what they found.

And then we're going to get into some question and answer. You all can feel free to type in your answers. We have some questions that were sent in in advance. And as we move through the presentation, if things come to mind, go ahead and type in your questions. And we'll do the best to get to them.

So that's our agenda. That's our game plan. That's our overview. Oh, and also, we have some more webinars coming up. And we'll get to that at the end of the webinar for today.

So first let's introduce our panelists. So first we have Sharmila Kassam. Sharmila is an attorney. She's a business professional and institutional investor.

Before joining Michael Best, Shar was deputy chief investment officer for the Employees Retirement System of Texas, where she led investment planning and strategy by co-managing a nearly $30 billion multi-asset class portfolio. Sharmila has over a decade of experience in the investment industry, and prior to that, 15 years of experience in the corporate and venture industry.

Sharmila received her bachelor's in accounting and her JD from the University of Texas. We're doing our best not to hold that against her. But it is what it is.

Next, we've got Marianne Scott Dwight. Ms. Dwight, she was raised in South Texas. She is a strategic business advisor and former institutional investor with experience in guiding investment managers and businesses utilizing good financial practices and good governance in a more efficient manner to maximize their return.

As a former institutional investor, Ms. Dwight is working with managers on ways to make their business more efficient and resilient, including focusing on good governance principles and developing ESG programs.

Finally, we have Jyoti-- I'm working in technology -- that's Marianne. All right, I'm with that. Let me catch up. All right, here we go. Finally, we've got Jyoti Aggarwala. Jyoti is a senior private markets business development professional with 20-plus years of experience raising capital for small emerging impact and diverse private asset managers.

Jyoti is a registered representative with Profor Securities LLC. She serves as an advisor to public and private asset managers, integrating ESG and impact.

Ms. Aggarwala received her MBA in finance from Bentley University and her BA in Economics with honors from Delhi University.

So please join me in welcoming our esteemed panelists. I know there's virtual clapping going on and all that good stuff. So let's get right to it.

So just a quick overview to get our arms around the scope of private equity in Texas, there are some 703,000 workers in private equity here in Texas, ranked only second to California, who has, I think, 1.1 million or thereabouts.

The average salary for private equity workers is $78,000 annually. And in terms of assets and equity activity, it's been steadily rising. We've got $72.25 billion in equity in 2017. And 2018, that number has risen to $110.62 billion. So we have a fairly robust and vibrant private equity activity here in the state of Texas.

Finally, I'm going to give a quick overview, so for some of you who don't live and breathe this stuff on a daily basis. So this overview is just to help us all stay calibrated as our panelists walk and talk through their discussion. So when we look at private equity, we're doing we're essentially dealing with three basic components.

First, we've got the investors. And they're going to be referred to as either institutional investors or wealthy individuals. When we're talking about institutional investors, we're talking about insurance companies, pension funds, hedge funds, university endowments, mutual funds, those types of entities.

And then our wealthy individuals can be anybody-- Jerry Jones, Oprah Winfrey, individuals with a lot of money. I'm not an equity fund investor. Probably not going to happen any time soon.

Then we've got the fund managers. So these investors, they put their money with the fund managers. They're referred to as private equity firms, fund managers, or the general partners. Our panelists will refer to them in any number of these three just so we can keep our bearings on what's happening.

So these private equity managers, they take their money from the investors and they put them in what we call our portfolio companies. They cross all types of industries and technologies and so forth. The common theme being they are privately held and they are owned by the fund managers.

So that's the general dynamic, that's the general layout. And so as we go through the discussion, when our panelists are speaking, it's going to be about any one of these three just so we can keep our eye on the ball. So with that, I am going to pass the baton over to our panelists. And I will let them take over with the discussion.

Thank you all for joining us. Oh, so our first is Sharmila. She's going to get us started. Go ahead, Sharmila, you got the floor.

- Thank you. And I sincerely have to say that since you're including a Longhorn in this discussion. So forgive me for having gone to the rival school. As a point of clarity here, the survey that we're using as a basis for this conversation was actually conducted by ILPA, or the Institutional Limited Partners Association.

And the reason we're using that is because it's an industry trade organization that includes many of the institutional investors, as well as some of the family offices in the industry. It's a large trade association with 500 members representing about $2 trillion. It's global-- there's about 5,000 individual members across 50 countries, and overall can represent about half the global PE that's managed.

The survey was a nice basis. It was conducted in the initial onset of the pandemic. But it touched on a lot of the concerns that we're going to elaborate on, not just from this survey results, but also from just experience that each of us have, as well as the discussions that we've had with stakeholders in the industry.

So let me start off with the obvious, I think, that people would expect to happen at this juncture is investor liquidity and the allocations that investors have to private equity. The survey itself talked about results showing over 60% expected some liquidity concerns. Some were significantly concerned. And some were just modestly checking their private equity allocations.

For institutional investors, it's an interesting time compared to say 10, 12 years ago when we were looking at the GFC. Institutions like pensions and others have been increasing their allocations to private markets. And so some have suggested that this will be a different dynamic than say in 2008-2009 where their allocations were lower and they were willing to invest more, take advantage of that opportunity.

There, of course, were institutions that were highly invested in the private market. So it all depends on the organization. But what institutions are concerned about is obviously the liquidity they need for the benefit payments, as well as how their private equity is a percentage of their overall assets being managed.

So it's often called the denominator effect. But when there's a sharp correction obviously in the public markets, the overall assets go down. And then private equity usually in the institutional world has certain bands or targets that their governing boards set. So there is some concern amongst institutions about whether they're going to exceed those targets.

For the wealthy individuals, many of them have not participated in private equity in the same context, like through funds. So it may be an interesting dynamic to see play out. And anecdotally, I've heard about it on the real estate side where more family offices and retail and institutional investors are actually participating in the private markets.

And then you have the added tailwind of recently more opportunity for private equity in retirement plans with the Department of Labor allowing for those type of investments in your 401K.

So LPs are trying to be very cautious right now and look to see where they most want to be in the private equity. A lot of them may be slowing down or circling around existing relationships. But that's going to be an interesting opportunity for the institutional investors to be more selective.

And as you hear the discussions going forward, you'll hear more about the manager perspective, and then obviously it trickles down to the portfolio companies.

So that takes me to the next point is how this allocation of private equity is going to be deployed. And so there is questions, as there were during the GFC, about the change in capital calls. So again, to level set, like Professor Newman was talking about, you've got investors who make commitments to funds that are a 10-plus year life.

What the manager of that fund will do will call capital as they have investments they want to make. So those investment periods over which they'll call capital range from three to five years, depending upon the strategy.

So the question becomes, will the capital start being called in quicker than maybe an investor wants to see, especially if they're trying to manage liquidity means. Initial survey results from what the investors for ILPA survey said is that they did see some changes in that capital call pacing. There's a little less visibility sometimes.

And I think that's going to be challenged by some of these larger investors from why the general partners are calling in capital. Some are calling in obviously to do investments. But as Marianne will talk about with how deal flow is going to work on manager side, that deal flow be slowing down, particularly as there's some uncertainty about the health care crisis and the macroeconomic environment.

Other reasons for calling in capital is we've already got managers that have credit lines, which I'll discuss a little more in detail, that may be trying to free up some capital so that they have more opportunity to invest in these portfolio companies.

So let me jump now to those subscription lines, which are these short-term lines of credit the general partners use. Now that differs from a portfolio company that may have its own lines of credit. And from what we're seeing in the industry, portfolio companies are obviously trying to leverage that. Fund managers are trying to support them in managing cash flow as much as possible at that portfolio company level. And Jyoti will talk more about that.

From a manager standpoint, and this can become a very long discussion, but I'm going to try to get through the highlights, is the history has been in probably the last five years that those credit lines which were typically short-term in nature, the purpose of which was to help managers more efficiently manage cash so that they didn't have to call in capital from investors too often. So it was more of a pacing methodology, if you will.

And many of them had maxed those credit lines. And so now the question becomes, do they need to free up some of that capital for some uncertainty in the future. Or would they continue to maximize those leverage on the portfolios?

And I think a question came in prior during the registration about the concerns about leverage in this industry. Obviously, private equity is a highly leveraged asset class. But there's obviously going to be some review by investors as well as I think a differentiator for managers in terms of how they use leverage, because the uncertainties of the current pandemic are going to lend themselves to having to be very prepared for whatever can come next.

And then finally, since we are talking amongst some legal practitioners, as well as trying to inform others about how legal considerations are taken into account, the pandemic, like it did during the GFC, will probably make investors as well as managers talk about certain terms and alignment in the partnership agreement.

I reference the organization survey that we're discussing right now, ILPA. And they've been much of a catalyst in terms of talking about how that alignment can be revisited. There was a lot of work done post-GFC where ILPA actually issued principles that came from discussions between investors and managers.

I can see that with as much fundraising that has happened in recent years, those alignment of terms often have gotten away from the investors. And so there'll probably be more discussions, especially on the use of leverage, the use of short-term credit lines, the visibility and the reporting of how investors are going to be interacting with general partners in terms of overseeing portfolios. And hope to get more into that discussion as we have questions both from the panel and from Professor Newman.

So let me pause here. And let's move to where the managers' impact and concerns are. Marianne?

- Yes, thank you Shar and thank you, Professor Newman. So I'm going to talk about the fund manager, or as we also refer to in the industry as the general partner. Having worked with over 200 general partners in my previous role and during the Great Financial Crisis, COVID, and what's happened as a result of this pandemic, has created some similar but also some very different concerns.

And then we'll talk about those today. And one of the first ones I want to talk about is fund raising. And I want to also point out that we're talking about the private placement of securities. So we're not just going out there and buying a public security-- we're not buying Nike stock, we're not buying Apple-- where you can just go and you do it yourself and you can do it through a broker.

What we're talking about is a private placement securities. And under the securities laws with the private placement of securities, you cannot market. You can't go out there and market the same way as you can-- and you don't have everything out there-- as you do if you're doing a public security.

You've got to be very careful about how you obtain your investors. And so as a result of COVID and what's happened, that has put a very huge kink, if you will, and created a big challenge to managers in their fund raising activities.

Because as a result of COVID, as we all know, we're not able to travel. Or we're traveling in a very limited manner. And so managers, in order to go and meet and establish the relationships with the potential investors, with their institutional investors, the endowments, the pensions, or the high net worth individuals, they're not able to do that.

And they're not able to meet them face-to-face. They're going to have to do it in a different way. They're going to have to do that through what we're doing today, and that is through a Zoom or something very similar.

The entire industry of how managers interact with the potential investors and how they establish relationships has been upended. So typically, they will go to conferences. They will have meetings. They will have dinners. They do it in a multitudinous of ways.

And each of those ways is not available at this moment. So managers have had to pivot. They've had to use technology. But even then, institutional investors and other investors are wary because they are not meeting them face-to-face.

That's been the human way. That's been the way that business had been conducted. And now we're going to have to look at it differently.

So that is one of the first things I want to talk about. It has to do with the fact of fundraising and travel and developing relationships.

The second thing I want to talk about has to do with the GP or the manager outlook and commitment pacing. Now Shar talked a little bit about that earlier. And now we'll talk a little bit about this right now because, as a result also of the pandemic, there seems to be a lot of managers out there, a lot of private equity firms.

But they are in competition. There is a huge competition. And they're not able to compete, as I said before, in the marketplace in the same way as they have before.

And so one of the things that these managers have to have to do is they have to try to differentiate themselves during this pandemic. And how do they do that? They're going to do that in this Zoom environment. They're going to try to differentiate themselves. And that becomes a little bit more difficult.

Additionally, they also are going to have to try to determine what the market's going to be like. And as we've experienced to date and what I think we're going to experience in the future, it's going to be a bumpy ride.

It's not going to be linear. It's not going to grow up. It's going to be up and down and up and down.

And so that's one of the things that these managers are going to have to be-- they're going to have to be able to pivot. They're going to have to also be able to have to work with their investors because they may have to have some amendments or changes to their strategy.

And so it's posing for them-- they're going to have to look at different ways of doing their business. Additionally, as the managers are looking at these portfolio companies and how they're going to choose portfolio companies, how they're going to monitor them, how they screen them, is also a challenge in this environment.

And so they're going to have to do this in a different way. They're going to have to employ maybe some more market research instead of some individual meetings. And they're going to have to use some other tools to conduct their own due diligence when they are trying to then make an investment. And so that may take more time as a result.

When an investor makes a commitment to a manager, and the manager wants to call money, they're not going to call for that capital before they can actually commit that money and to buy a portfolio company, or to invest in a portfolio company, as it were. And so that timing is a little, as I would say from a legal perspective, caddywampus right now.

It's difficult right now to actually judge when they call for the money and when they actually need the money, because sometimes it may come quicker than they think. Or it may take longer because of the fact of how they're going to have to conduct the due diligence and engage in these conversations and negotiations with these portfolio companies.

And so that takes me to my third point that I want to talk about today. And that is the GP and manager communication. So partly in this, as a fiduciary, the general partner, the fund manager, has a responsibility to those that they invest money for.

And so it becomes also another timing issue as to when and how much would they say as to what's going to happen as a result of COVID. As I've talked about up to this point, is that COVID is impacting their ability to fund raise, their ability to commit the money, and so their ability to do some of the due diligence, and also their ability to monitor and help these portfolio companies in this time of crisis.

And so what should they say and when should they say it? The investors, they want total transparency. They want to know even before anything happens that it's going to happen. Well, we know that that's not practical. But there's got to be some middle ground in there.

We also know that the portfolio companies need to have some direct communication as to how the manager can help their needs and how they can help them through this crisis. And then there's a third leg to this, and that's the regulators, because the regulators want to know ahead of time, or at least as soon as possible, when there's going to be an impact on that manager in actually acting as a fiduciary and being able to follow what they said they're going to do in their limited partnership agreements and their other agreements with their investors.

So communication, I think at this time, is becoming even more important. And I think managers are taking stock right now. I've had several managers who have asked me, when should I say it and how much should I say. Should I say we think that if the rents don't come in next month that it could really impact us to the point that we might only have another six months' run rate? But we don't know that for sure.

And so how much should you say when you don't know for sure. And again, as I said before, it's a bumpy ride. But we know that there's going to be some bumps. We don't know the depth and the breadth of those bumps.

And so I think that's when we really have to be very close and be as transparent as possible, but also given that this is something that they could have some help. They could get some resources. And that's something that Jyoti will talk about later.

And one of the last things I want to talk about are the legal provisions. And so Shar referred to this earlier. And from the manager's perspective, and because of the fact that they may need some more time and within which to commit the money, within which to make some investments, they may need to go back to their investors. And they may need to amend the agreements with those investors, like their limited partnership agreements for example.

They may amend that and add more time within in which to invest the money or extend the investment period, as it were. They may need some more time or they may need to add some strategy. They may have a very specific amount of what they can invest in. And because of the fact that health care and the making of masks, for example, have become a premium right now, they may need to amend their agreements to allow them to do that.

And so I think those are some things that they are going to have to work very closely with their investors. They may also, and which Shar was talking about, which is the debt, the leverage ratio.

Since the financial crisis, many of the fund managers in these agreements allow them to have maybe a 70/30 leverage ratio. But given this environment and the ability to go to banks and to borrow money in order to invest in a particular portfolio company may be more difficult. And so they may need to put more equity in and less leverage, which to the investor might be a good thing for them actually.

But I think those are some discussions back to the communication. Those are some discussions I think that the managers should be also having with their institutional investors. And at this time, I think that I will pause. And then I will let Jyoti speak more particularly about the portfolio companies.

- Thank you Marianne. And as Marianne and Shar have been talking about different impacts, both at the limited partner level and as well as at the general partner fund level. I'm now going to address some of those same concerns around leverage, around fund raising with portfolio companies.

And we are talking about companies that are backed by private equity. And just for a moment, I want to digress and talk about what are the return drivers really for private equity. It starts with business fundamentals. And then hopefully you can get a discount to your peers in your valuation when you acquire that company, which is generally control.

And the third thing is your ability to add value as a fund manager. And lastly, it's the leverage. So when we look at company valuations, the first thing we look at is the impact of the pandemic on certain industries.

So many industries have faced a positive impact. And these, as we know, we're on Zoom, so certainly productivity tools, communication tools, internet, e-commerce, personal healthcare, medical supplies, food processing services. Those are some of the industries that have actually benefited from the pandemic.

On the losers, it's also quite obvious. We're not traveling as much as Marianne said. So tourism, leisure, aviation, and maritime, normal cruises, automotives, as well. People don't have any place to go. And of course, obvious things like construction, real estate, manufacturing, but also financial services, education.

I know many of you have kids at home. And sure een the law school had to shut down for the summer and make other arrangements. And this is closest to my heart, what's suffering are the arts. I'm in New York, all of Broadway, all of the Metropolitan Opera, museums, everything is shuttered. So that's one thing to look at.

But again, when we look at relating back to both what Marianne and Shar were talking about earlier from a company perspective, we really have to see how much cash do they have on hand to continue their operations. And yes, private equity firms, as well as companies, have been eligible to get some of the pandemic fiscal stimulus, like the Payroll Protection Plan. We could talk about that later.

But really, liquidity has become primary in managing the business because you remember earlier pre-pandemic the focus was really on growing the business, on looking at the drivers for EBITDA, on looking at new markets, looking at competition. But the focus now is on liquidity.

This is unusual because it's both a supply and a demand shock. And we're not sure as we get back into opening up again whether consumer behavior is going to continue to be the same. I know for one thing that I realize I need less. And I'm able to do a lot more. Who knows if I'll go back to eating in a restaurant again, but certainly enjoying my own cooking.

Leverage is an element that both Shar and Marianne talked about, and rescue financing, particularly as you know in the middle part of the lifecycle of general partner holding portfolio company they want to focus on debt reduction. So depending on where that investment cycle you are, some of those portfolio companies may have been talking to their bankers about either paying down the debt or changing the terms. So that is one issue to look at.

And then of course, the financial health of a business versus the interest coverage and the covenants. Again, both Marianne and Shar touched upon that.

More realistic in this, I think, is relevant for everyone, not just for the portfolio companies, is the transition to remote work. Some of the issues that come up here are privacy and data security. As you know, it's health privacy. Do you go disclose to your employer that somebody in your family has had COVID or you've had COVID-19, and whether or not you should disclose that to everybody at work?

Data security, on the other side, working remotely. We're talking about law school and lawyers. They have a lot of sensitive information. Who else is in your home office who is able to access that information? And not only that, do you have encrypted software?

And lastly, do you have listening devices like Google Home or Alexa listening into your conversations around sensitive matters at home?

Health and safety is no longer just about construction companies or mining or oil and gas. It is really everyday health and safety, whether you are working from home or you are going to your office when it reopens. What are some of the infrastructure that companies are thinking of to be COVID compliant?

And again legal issues come up here, because you have to be COVID compliant for the health and safety of your employees, not only based on federal regulation, but also state and city regulation. And those are some of the factors to look at.

Remote and office work environment infrastructure will have to change. I saw a recent press release from Amazon saying that they were going to invest $4 billion in redoing their infrastructure so that it is COVID compliant.

So these are some of the factors that companies are having to look at. And I have to iterate both from what Shar and Marianne talked about that the communication-- this is a partnership, that's why it says it's a limited partner, it's a general partner. And the companies and the management of those companies in these controlled buyouts have to communicate. They have to be able to talk to their general partners about their financing needs, get help on their debt requirements, and also manage the business and see new opportunities.

So with that, I think we are ready to open up with Q&As. And I'm going to pass it back to you, Neal.

- Thank you Jyoti. So fantastic discussion. And again, to our participants, you are free to chime in with questions. I do have some questions as I was listening.

And again, I'm going to put these questions generally. And I would invite any of the three of you to weigh in as you see appropriate. So again, everybody, I put this up here because I need this reference point so I can keep track of everything. So that's what I'm looking at. I'm looking at this chart up in the corner of the Q&A.

So Marianne, you focused on the fund manager, the general partner. And one of the things you talked about was this communication dynamic. And what really struck me was, I see this private equity dynamic as on the speculative side to begin with. But then when you add this COVID-19 overlay, I mean, it's just really a time of uncertainty.

And you talked about this delicate balance of what you tell the investors, how that communication works. But there are just a lot of questions that cannot be answered, because we just don't know. We don't know what's going to happen with this pandemic. And so we don't know exactly how that's going to play out with the portfolio companies and everything else.

So my question is, what exactly, because, like you said, the investors, they want as much certainty as they can get in this type of situation. But they can't get it. So can you talk a little bit more-- and all three of you to the extent you can weigh in-- what are those conversations like when you've got the investors seeking to get as much information as possible and the fund managers just don't have it. Is that creating more tension? Or is everybody in this space understanding? How is that playing out?

- Well, I'll start off. And then the rest of you I know you all have some examples of this. But in the past, there's always been this dynamic or tension, if you will, between the manager and the investor vis-a-vis information and transparency, especially in the context within which I worked previously, which is a public entity.

We wanted as much transparency as possible. But if we got it, then the manager was worried about the fact that it would be subject to the Texas Public Investment Act. So it would be a FOIA-type concern for the managers.

They didn't want their secret sauce, if you will, everywhere. They didn't want all the details about their portfolio companies out in the public domain. So there's been this natural tension in that regard.

The manager also has certain fees and expenses. And they're allowed to charge X amount for their widgets, their offices, and then how they conduct their business. And then also when they serve on the boards of these portfolio companies. And that has been another area of tension between their investors and the manager themselves.

But in this COVID environment, I think it poses an interesting paradigm in this natural tension, if you will, between managers and their investors with transparency. And that is because then no one has the eight ball. So no one knows for sure what's going to happen or how it's going to happen.

And what this impacts in the day-to-days, how do they value the portfolio companies. When should they write them down? Should they write them down. And if they do, how much should they write down.

Are they going to get that PPP loan? Maybe not because they may not qualify. Are they going to get some other financing?

So how much? What should we say when becomes I think even more of an issue at that point. And I'll just leave it there because I know that Shar and Jyoti have some things to say about this issue.

- I'm happy to chime in. I think from the investor standpoint, you're right that there's a lot of uncertainty. And the investors are fully aware of that. They have governing boards that sometimes, because on the institutional side, they may have to answer to you on why the allocations of privately are what they are.

One of the things to take into account is that you have a spectrum of people in terms of the way they want to hear communication. Anecdotally, I've talked to investors who are managing large programs that want their managers to give them risk management.

How many of the companies are going to be able to survive? How many companies to this point are maybe thriving because they're in sectors that are getting a tailwind because of this? And how are they going to be managing cash flow and stability in aspects of their business that may not have been as an area of focus-- supply chains, dynamics within the industries that the company's already dealing with, especially if the industry is part of the shutdown in different regions.

I think other investors may be looking at this as a way for managers to differentiate themselves in terms of the amount of information they give and the quality of that information. I mean, I don't think anybody is really unrealistic [INAUDIBLE] know all the answers.

But those managers that some of us have talked to have started to be very proactive early on. And so when things were starting early on in China with the pandemic, we know managers that were calling, trying to help with supply chains with their portfolio companies.

So some of that, two points that have already been mentioned, where private equity is already a competitive industry, and this challenge is going to highlight perhaps the types of managers that are distinguishing themselves based on how they're handling this situation. But I think a lot of that revolves on everything from risk management to just the quality of communications to an idea of where money is going to be called and how it's going to be used.

Because there's also going to be opportunities where money should be deployed, stressed and opportunistic situations. And I think comments have been made about managers maybe pivoting. They need to for certain strategies.

- And just putting on my fundraising hat, that is what I do every day, and echoing both what Marianne and Shar had talked about, what we see in the GP communications is this great opportunity for leadership that a lot of the general partners have.

And the leadership to communicate not only with their companies and portfolio companies and to be able to help them in places where they may not have those systems in place, but also importantly to communicate with their limited partners. Some best practices that I have seen some of the managers do is immediately-- like we talked about, there's a lag in reporting. So the reporting comes every quarter.

There are some folks who've just said, a quick back of the envelope, positive, negative. These are the companies in our portfolio and these are the sectors that are most hit. So we're likely to have some impact. We don't know for sure.

The second thing is to really talk about some of the things I mentioned in the presentation-- the supply chain or the demand, The shock-- is it on the demand side, is it in the supply? So a quick positive and negative.

And I find that this kind of communication when you don't really have hard numbers, you don't really know what the macro environment is, I've been working with a lot of managers that are also in different markets, not just in the US. And there are different conditions. The government conditions are different for the pandemic. The rules are different.

You know that Europe is now back open, but the U.S. isn't. And how many of your companies operate overseas or how many of them are overseas and what are the different conditions. These are all things that are really worthy-- quickly on the back of the envelope saying, OK, we don't know, but here's what we think that we should focus on.

And so there is a whole bunch of things. And going back to the communication -- having just a limited partner, a quick letter going out, saying, yes, we have been affected. We don't know exactly what that impact is going to be. But we've put in place our business continuity plan.

Everything is well here at the fund. All of our employees are working remotely. We have the secure systems in place and the infrastructure to continue managing. That's very important basic information to communicate to your limited partners, as the companies are also communicating to their general partners.

- Thanks, Jyoti. OK. I see some questions in the queue. And we see them and we will get to them. So I'm going to throw this out there. So I'm looking at the dynamic between the fund managers/general partner and the portfolio companies. And I'm going to give my layman's perspective of it. And you all can tweak me and correct me.

But it seems to me when this pandemic started, it seems to me fund managers-- what you have from my assessment is you've got portfolio companies in all different states. They've been affected in various ways, as you said, based on the type of industry, what they do, and so forth.

And so my assessment is, that has put a lot of onus on the fund managers and how they are dealing how to manage their portfolio of companies. It's almost like triage in some ways.

So I'm wondering if you all can share-- and so what I'm seeing is really good fund managers may be distinguishing themselves as they manage their portfolio through this pandemic. And others not as skilled may be falling behind. Or we may be seeing some deficits there if they're not as facile in managing this pandemic and managing their portfolio companies through this pandemic.

I was wondering what you all would have to say about that and what observations you have? If I'm making sense with my question.

- You are.

- And Jyoti maybe you start, or whomever.

- Yes, sure. So I think you're absolutely right Neal that it is a question of how that general partner is managing the portfolio companies and how they're communicating with their portfolio companies.

But not only that, they have to also look at what is their own company. What is the best practices within their own companies, whether the investment team, the operating partners, the bankers, the lawyers, all of the service providers, the third party audit.

And I think we've touched upon this a little bit earlier when Marianne was talking that from a legal perspective, things are going to slow down because you're not able to travel to see to do the due diligence. And when you do have to invest, you need to get all the lawyers together. You need to have all the audits, you need your bankers. It's not an easy process. So the GP will have to take the leadership here.

And I don't know, Marianne or Shar?

- I'll turn chime in too. I think when you specifically speak to triaging and what the portfolio managers-- they're going have to make tough decisions. And that's part of what we want to touch on here too.

Anecdotally, I have seen managers who've had to look at their portfolios and see how they may actually make some exits earlier than they wanted to, or actually structure some secondary transactions for companies that they still think have more promise in terms of valuation potential and appreciation. But because they need to reinvest the funds in those companies that are struggling in those industries that [INAUDIBLE] are having more of a headwind.

So it'll be interesting because a manager now has this tough decision about trying to manage the entirety of its portfolio, but also how that is done will differentiate itself in performance, which they're going to have to live with going forward. I mean, Jyoti can speak very much to the fund raising. When you've done all the right things but your numbers aren't there, it's very difficult, even with all the explanation that the pandemic created.

- So, right.

- There will be some interesting transactions structured because of it. And there will also be some hard decisions that managers are going to have to make. And the way to communicate this to investors will be very crucial.

- I think Shar on that point, there's a difference between a fund manager who has a legacy portfolio and is fighting fires, whereas a fund manager who is a first time manager-- and I want to put a plug in for-- and again, this is not a recommendation, again, I'm going back to the disclaimer. But you can see emerging managers, their very first time, and they're raising their capital, they have alignment because they want to build a track record.

So maybe there's an opportunity here. And Shar mentioned secondaries, distressed debt, emerging markets with diversification. There are many, many different opportunities where investors could look at.

And then historically we've seen the performance from the global financial crisis. And then we had all the quantitative easing that private equity at least in between 2015 and now '19, I saw some numbers that median return was 17% on private equity.

- And the thing is that private equity serves a purpose because it is, as we refer to it, as the shadow banking system. So the banks cannot provide the help to companies themselves. And they don't have the resources to do it. And in this case, it is very difficult for them to be able to do that.

So private equity steps in to do that. That's basically been the reason for private equity. And managers right now, there's one that I know that had a deal that was starting. They were almost completing that deal when COVID happened.

And it was going to really add to the portfolio. It was going to add to return for its investors. And then actually they had to end that deal. It was going to be a very large deal. And they had to then decide not to do it.

And that was the best decision given what was happening because it was in the real estate sector. And it also had to do with multi-family housing. And that is one of the things that has just hit so hard during this pandemic. And so they had to pivot. And so that's just another example.

- Can I just-- and not to belabor this point, Neal. But I think Jyoti brought up a good point between funds that have existed for a while and emerging-- or for managers. Actually, I think the challenge in making these tough calls is in both portfolios.

I've talked to smaller and newer managers who had a lot of momentum in their portfolios. And now, despite their best efforts, their performance probably will be challenged. So I think that goes then to how fund raising-- some funds are going to have closings that are going to be delayed, and some funds are going to be launching later, which to some extent is easier, obviously, for a larger manager that can afford it.

But for these newer managers, I think there can be a big disparity in how much capital will be raised by those smaller managers. And it's hard if you're going to get there. But If you're trying to come out, there's some tough decisions to be made.

And there's even discussion that this whole situation where private equity will probably benefit somewhat in terms of an opportunity to reinvest in the companies going forward. But will that be all then encapsulated in the larger managers? And will the smaller managers really have their share of the fund raising?

- And that's what happened with a manager that we both know, that they were supposed to close and have their first close in March. Well, I should say their final close in March of this year. They already had some hard circled money. That would have gotten them up to about $200 million. And because of COVID, everything just slowed down. It came to a halt, actually.

So they're hoping by the fall that folks will be able to be together, or at least have investment committee meetings, finish up their due diligence, and so that they can have their close. And they are you know a smaller manager. And so it's directly impacted them.

- One thing I wanted to mention anecdotally here, because I am raising capital for mostly smaller funds, I have never been so busy. Usually, nobody wants to talk to a placement agent because times are so good.

But even funds with the best track record, they are reaching out and saying, do you have any bandwidth because it's all about what I call TLC, those Trusted Long-term Commitments and connections that you have. You have a relationship-- that's what's going to help you in these COVID times because everybody knows we have Zoom fatigue.

And there's so many things that you're balancing in your home. And so it becomes really important who are the people in your networks that you can rely on and communicate with. So it's really a long-term business and it's based on trust and transparency.

- OK, that's awesome. You're talking about Zoom fatigue. When we open back up, I'm getting used to getting dressed 20 minutes before I have to be at work, you know what I'm saying. All that's going to go back.

OK, we're at 12:55. We've got a little bit of time. We want to stay on time.

Here's a question from Travis Alley. He's a 2018 A&M grad, by the way. So good that you're here, Travis.

- Gig ‘em.

- Here's his question. If PE funds are now an option for employees to select in their 401K, how do you all anticipate fund managers communicating with and educating these employees who have likely not been exposed to such investments in the past?

- I'm happy to chime in here because this is an area that I feel really strongly about. I think the ability to invest retirement assets into private markets is obviously difficult. It's very sophisticated.

But it also is a differentiator because up until this point, most people have only been able to have access to public markets. For some time, some wealthy and sophisticated individuals have been doing it. But a certain regulatory opening came out where now it's becoming more common.

I think the way this is mostly going to work-- from my experience, we had a $3 billion DC 401K plan at my old organization-- is really as part of that asset allocation package. So when we were talking about institutional investors and how they look at private equity, it's part of a diversified portfolio. And so many target date funds or other types of programs like that will offer solutions.

But I think having it be a standalone product by itself would require someone who honestly has a lot more expertise in this space and probably has to really understand the risk that they're taking. I think for average person it should be part of a diversified allocation, which hasn't been available to this point to individuals.

- And I'll chime in as well. Part of the other thing that I do besides raising capital and ESG consulting-- I do a lot of educational webinars through expert networks. One of them is [INAUDIBLE] group for their members. And it's always on this topic of talking about some aspect of private equity. We're talking about private equity now-- I mean private markets.

So I've done things on early stage investing, on looking at how do you fund raise. So there are a lot of opportunities to learn from different networks that are available that are teaching about the different asset classes within the private markets, everything from venture capital to real assets and private equity.

- Fantastic. Well, I'm looking at our clock. We're right up on the hour. And so I'll just say some closing remarks.

First off to all our guests, we appreciate you all have decided to join us. Oh thank you. Did you do that, Jyoti? Did you move that slide?

- Yep, I did.

- Good job. You are on it. You are on it. So we want to make you aware that we have some more webinars coming up. So the video recording of this webinar will be available. It'll get posted in due course by our crack team of marketing who keep an eye on us and keep the trains running on time.

Thank you, Kirsten, for doing that. She's the [AUDIO OUT] So I want to make you aware of that.

And also, next week we've got two other webinars coming up. The first one's on the 23rd, Minority and Women-Owned Business Enterprises and the Joint Venture. That should be a good one.

And then on Thursday, we've got Immigrant Rights During the Pandemic-- Litigating Habeas Petitions for Detained Immigrants within the Fifth Circuit. And then on July the 8th, we've got Commercial Tenant Considerations in the Age of COVID.

So we've got a lot more fun down the pike. And I just want to say to our panelists, thank you for coming and sharing your time and your knowledge. To our participants, thanks for chiming in. I hope you got something out of this.

Panelists, it's been great working with you all. You're all a great bunch. It's been a lot of fun. I've learned a lot. So thank you all. And thank you to our panelists.

And everybody, you have a great rest of the day. This concludes our private equity webinar. You all have a good rest of the day and a productive week. Take care, everybody.

- Thank you.

- All right.

- Bye, thank you very much.

- Good job, all right.

- Bye-bye.

While the panelists are all attorneys, they will be discussing the law generally, and nothing in the webinar should be considered as legal advice. Attendees should consult their own legal advisor to address their own unique circumstances.