



Still Plenty of Reasons for Emerging Private Equity Managers To Launch Their First Fund

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Many commentators expect the private equity sector to struggle throughout 2023, at least, compared to the asset class's historical standards. This year, headwinds such as higher inflation, higher interest rates, and a slowing economy are expected to take their toll on fundraising activity and portfolio company valuations in the sector.

This pessimistic sentiment might have the effect of dampening the appetite of emerging private equity managers and independent sponsors for launching a pooled fund. That's understandable, as launching a business in any industry during a downturn tends to be more difficult, but fear not. To the emerging managers and independent sponsors cohort out there who have doubts about raising their first fund in the current market environment, they should not be deterred. There is success to be had.

Too often I see eager investors looking to raise hundreds of millions of capital and then get frustrated at what they perceive to be a very slow fundraising cycle. Especially, when they see in the media that some general partners are getting to the first close in seemingly no time. I know that everyone wants to raise as much money as they can, but in many cases, the best way forward is just to go for it at a smaller size.

Many of the private equity launches that I worked on last year had some key commonalities:

- an understanding of their target investor and their requirements.
- a defined niche in which the general partner is an expert.
- having a robust middle and back office infrastructure which provides comfort and security to their limited partners.
- a good valuation policy, which is key to success in my opinion in the private equity market.

It's important to remember that launching a fund sooner gives you the desired track record to then go out and raise a second vehicle a couple of years later. Another reason to launch now is that deals will be priced more reasonably when compared to the past few years. There are significant benefits to be had by getting ahead of any upturn in the current economic environment.

I'm aware that it's not easy. It's certainly more expensive than ever to launch a private equity fund due to the prevailing regulatory environment that seems certain to become more onerous in the coming months as the SEC continues to look more closely at the private equity markets. Do not let this discourage you, for budding private equity partners who take an institutional approach to run their business, are willing to start smaller, have a niche and are good at it, and can effectively tell their story to potential investors, there is plenty of money out there that is looking for a home in private equity.

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