



## Consultants Defend Use of Placement Agents

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By [Jay Cooper](#)

The actions of placement agents involved in alleged kickback schemes will not tar consultants' view of the overall placement agent and third-party marketing industry. The supposed kickbacks, though, will still lead investment consultants to ask some more direct questions of alternatives managers.

Many consultants maintain that placement agents and third-party marketing firms have an important role to play in assisting alternatives managers, especially smaller private equity and venture capital firms. "There are some placement agents out there that are really top-notch people," says Sanjay Mansukhani, head of private markets research in the U.S. for [Watson Wyatt](#). "They understand the bar for investing in private equity has gotten higher... The better ones have talented people who scrub the numbers and look to understand the advantages" of a particular fund.

The role of placement agents has dotted headlines across the country after New York Attorney General Andrew Cuomo and the [Securities and Exchange Commission](#) began investigations of pay-to-play allegations involving New York's \$122 billion Common Retirement Fund. Since the investigation began, several public pension funds have adopted different policies regarding a manager's use of placement agents and the disclosure of that use.

Several people, including a former top aide to the New York pension, have been charged criminally, while two men connected to the case have pleaded guilty. Meanwhile, private equity giant [Carlyle Group](#) last week agreed to a \$20 million settlement with Cuomo's office and agreed to change how it approaches pensions and politicians nationwide.

Consultants say that they are likely to ask more detailed questions to managers about their use of placement agents going forward. But, in spite of the headlines, consultants also point out that there are many reputable placement agents and third-party marketing firms who play a valuable service to managers in the fundraising process.

Some consultants see placement agents almost as another layer of review. For example, [Ennis Knupp and Associates](#) conducts its own due diligence on all managers, whether they are represented by a third-party marketer or not. But a firm's use of such marketers indicates that the manager has already undergone an initial diligence process, says Brett Nelson, principal and head of global private equity for the firm. "They're a component of the due diligence process. They're not going to market a product unless they believe in the success of the fund," he says.

But the issue will remain a hot-button one for many pension plans. "It's going to be on the agenda of all the public pension plans," Nelson says.

Right now, Nelson says Ennis Knupp generally asks more general questions of managers regarding their use of placement agents or third-party marketers. The firm also asks the manager to disclose any conflict of interest they have with a particular pension fund they are seeking business with.

Going forward, Ennis Knupp "may ask some more specific questions to the managers," Nelson says. Those questions would ask for more detail on how the third-party marketer or placement agent is compensated and a specific definition of what their role is and what services they are providing. Nelson notes that a reputable third-party firm has a very defined role with the managers they work with.

Alternatives consultant [Cliffwater Associates](#) will be adding similar, more detailed questions about the use of third-party firms by the private equity and venture capital managers they review.

While Cliffwater previously would ask managers about the specific costs associated with fund formation and judge whether they were at a reasonable level and for a legitimate purpose, the firm will now include questions such as the following: "List any agent, third party or individual engaged or paid to assist in the fund formation and fundraising, including those involved and paid for introduction of new investors, for the current fund and the prior fund."

The additional disclosure is intended to learn more about where the specific fundraising costs are going, says Cliffwater CEO Stephen Nesbitt.

While Cliffwater will ask more questions about a manager's relationship with a third-party firm, Nesbitt also notes that many of those third-party marketers and placement agents play a sensible role for managers.

"They're invaluable to some private equity firms that are smaller and don't know the institutional landscape, but want to raise money quickly and infrequently," Nesbitt says. "A lot of start-ups wouldn't get off the ground were it not for placement agents."

He points out that it makes more economic sense for some managers to hire a placement agent when it is time to raise money for a fund, rather than building out a sales and marketing team that is idle between fundraising rounds. And hiring a third-party marketer makes a lot more sense than asking the investors to take care of fundraising. "The general partners, the good ones, don't want to spend time marketing," Nesbitt says.

Watson Wyatt's Mansukhani agrees. "Placement agents, from our perspective, have a role to play. The role is to make the job of setting up meetings for managers easier so managers who don't have an external marketing team can focus on investing, which is what we pay them for."

That said, Mansukhani says there could be less use of third-party firms by the larger alternatives managers who may simply decide to build out their sales and marketing teams rather than using placement agents at all.