Private Equity Marketers Revamp to Survive

By Tom Stabile

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Private equity placement agents are responding to a sweeping evolution in the funds market – and today's fiercely competitive fundraising environment – with a variety of strategic moves aimed at chasing growth or even just keeping pace.

Firms are forming partnerships, entering joint ventures, marching into new channels, and building expertise in new fund specialties in bids to keep up with market changes. Some are adding capacity to sell real assets strategies, while others bulk up to target foreign markets or the growing interest in private equity from advisors to high-net-worth clients.

Partnerships are especially attractive as smaller placement agent boutiques aim to compete with larger rivals, says Brian Fitzgibbon, CEO of Fitzgibbon Toigo Associates and board member of the Third Party Marketers Association. It doesn't help that financial markets seem headed into a slower growth mode and that some sectors – such as corporate pensions – are retreating from private equity over time, he says.

"It's a tougher world," Fitzgibbon says. "You're going to see more placement agent boutiques partnering with each other globally and the partnership model expanding. To survive, organizations are going to have to be more creative."

Placement agent firms are also bolstering other skill sets to match up with the increasingly diverse and sophisticated tastes of limited partners (LPs), says Jeff Eaton, partner atEaton Partners, a marketing firm based in Rowayton, Conn. Some of the newer areas of interest, such as private equity secondaries and direct investing, were once only the purview of specialized brokerage shops.

"The appetite for alternatives has grown substantially, and LPs are becoming more global and specific at the same time in what they want," he says.

The largest placement agent firms had already made forays into overseas markets and specialties such as real assets about a decade ago, says Kelly DePonte, partner at Probitas Partners, a San Francisco-based marketing firm. Shops such as Probitas and Eaton now have offices in cities such as London and Hong Kong.

"The placement agent market is split between large firms operating globally and a very large number of smaller teams or one-man bands," he says.

The rise of partnerships between smaller firms is directly aiming at that divide of resources and capabilities, Fitzgibbon says, noting that just this week he got a call from a placement agent in France about partnering on a fund manager targeting the U.S. market.

“We have a strong dollar to attract overseas managers to the U.S.,” he says. “There is hopefully an opportunity for everyone to cooperate more with overseas placement agents.”

The sweep of new regulations on private funds across many jurisdictions also makes it more attractive for placement agents to partner with local players in particular markets as a way to get relief from the complexity, expense, and constraints of new marketing rules, Fitzgibbon says.

Another strain of the partnership model is opting for a more formal joint venture, as BerchWood Partners and JTP Capital chose this year. The link-up matches BerchWood’s private equity experience with the real assets chops of JTP’s Mitchell Sikora and Henry Delicata, saysWilliam Zwart, partner at BerchWood.

“We’ve been wanting for some time to build out our team in core real estate,” he says.

Moving into real estate and real assets largely responds to expanding demands from LPs for different private fund options, Zwart says.

LP interest is rapidly diversifying in the real assets market, DePonte says. “We’re beginning to see interest grow in agriculture and metals and mining,” he says.

There is growing LP demand for other specialties beyond standard buyout funds, such as in private debt, Fitzgibbon says.

Marketing firms also are building their expertise beyond just raising capital for standard private commingled funds. For instance, as LP tastes evolve into secondaries and direct investing. Eaton says placement agents can play a role bringing together LP, fund manager, and deal-sourcing relationships they already have.

“Whether it’s a corporate entity investing its balance sheet in deals or a fund-less sponsor, they are looking for partners for deals,” he says. “We want to be in the middle of that.”

Placement agents are increasingly hunting for relationships with fund managers and LPs in new markets and investor channels as well.

Several larger marketers have been extending their global footprints, such as Boston-basedMonument Group, which added offices in Hong Kong and Tokyo last year. Some firms are making efforts to grow in Latin America, and more offices may start to open in Sao Paolo in a few years, DePonte says.

A host of placement agents also have joined a new effort to distribute private equity funds to independent advisors for high-net-worth clients though the iCapital Network, an online marketplace that aims to connect fund managers with accredited retail investors. That partnership has pulled in Eaton Partners, Monument, Mercury Capital Advisors, Stanwich Advisors, Capstone Partners, and the private fund groups at Credit Suisse, Blackstone, andEvercore. Blackstone is in the process of selling its marketer arm, Park Hill Group.

Eaton Partners is also trying to build its presence as a liaison between managers and large wealth management groups, such as the wirehouse brokerages, which often set up feeder funds for their advisors to access private equity funds. Private equity managers often don't have established relationships with the "gatekeepers" at large advisory firms, providing an opening for placement agents to make connections, Eaton says.

Aiming for the high-net-worth market could have its downside, however, DePonte says. It's difficult for marketers to create a viable, sustainable business in the advisor world without making an active push, and that can be an expensive proposition, he says. And it's still not clear that individual investors will end up pleased if they access private equity through vehicles that are bound to be more expensive – and likely generate lower returns – than the funds institutional investors use.

"If time progresses and they see their returns are heavily hit by fees, [wealthy investors] may be more willing to blame someone, and cause blowback for the entire industry," he says.

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