

Podcast Precis

Abi: Steve, you have had an interesting career, even within Cambridge where you were heading the investment advisory practice in Asia-Pacific. Can you talk about leading a team in Asia, coming back to the U.S., and how this ties into your world experience?

Steve: *I had good fortune of stumbling on to Cambridge Associates just after graduating from university. After a couple of years with Cambridge, I had the opportunity to relocate to Singapore to help open an office there for them. I returned to the U.S. in 2008 and had the chance to help co-lead the consulting practice for Cambridge. One of the most rewarding things about my time there was the diversity of work. Being able to build and lead a team in Singapore, and then have a chance to get involved with aspects like data, reporting, etc. after coming back has been an incredible experience.*

Abi: Back when you started, PE was not a household phrase as it is today. How did you get into this world?

Steve: *I had the idea that I would love to be involved in a sort of longer-term institutional style investing. As I started to ask around, I was introduced to Cambridge. For me, the combination of for-profits together with the highly sophisticated investment programs, was incredibly appealing. I did not exactly know what I was getting into, but I just knew that it was interesting and might present all sorts of opportunities to grow in this area.*

Abi: You have seen the evolution of this industry both in terms of sophistication and reach. Can you share your thoughts on how different this world is from what it was 20 years ago?

Steve: *The change we have seen in the past 20+ years is remarkable. If we think about the private markets in particular, the scale, velocity, diversity of strategies, and how GPs have elevated the practice of PE, is quite incredible. I also think that the globalization of the industry is noteworthy. What we now have in China, India, and some of these other emerging markets around the world did not exist in any material form when I think back to my first trip to Asia with Cambridge. Seeing the leaps and bounds with which they have grown, it is hard to overstate just how far we have come.*

Abi: Typically, \$100 million goes a lot further in an emerging economy than it would in the U.S. From a fundraising perspective, how have you helped LPs get access to emerging markets if a lot of the products do not create big checks where they can deploy meaningful amounts of capital?

Steve: *Yes, it is a challenge for investors of a certain scale even if you have the appetite, interest, and willingness to do the hard work. There are a variety of ways to go about it. There are either emerging managers or emerging markets pooled vehicles, fund of funds that exist with dedicated outsourced strategies to tap into those markets at a scale. You also see folks carving out a portion of their overall program dedicated to seeing some of these managers become successful. I think the reality is that it continues to be a work in progress if you look across the smaller markets.*

Abi: You have had this wealth of experience at Cambridge and about two and a half years ago, you moved over to become the CEO of ILPA. Can you share with us what the mission of ILPA is now and what it was when you joined?

Steve: *Fundamentally, the objective is to make sure that we help empower, connect, and elevate LPs around the world and help put them in a position where they can invest with greater confidence and generate even more attractive investment outcomes than they are today. The organization has grown considerably as today, we are around 550 members which represents a global LP base sitting in over 50 countries and north of over \$2 trillion of PE AUM.*

Abi: One of the powerful tools that ILPA has created are the templates for reporting across various parameters. What was the evolution of developing these templates and the process ILPA used to create consensus for what goes into these?

Steve: *A part of what we are trying to do is ensure that those templates are as useful to the industry as possible. The more they are utilized, the more the efficiency and time savings that accrue to all. These standards and best practices date back several years and are core to the ILPA mission. Talking about consensus, it takes a lot of effort. We do have an incredibly generous group of LPs who engage in an active two-way conversation with our team. We benefit tremendously from that.*

Abi: How have you seen LPs use the increased data and transparency to be better investors?

Steve: *Data has become a much more important aspect of the due diligence, valuation, and decision-making process. I think what we now have, is an industry where data is much more available in a form that can be consumed by LPs. While we are providing all this data, it is unclear how it is filtering its way through internally with LPs, but we just want to be assured that it is having an impact.*

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Abi: In this evolution of increased data from GPs to LPs, what percent of LPs do you think are using it to create a competitive advantage and be better investors and when do you see it becoming just table stakes?

Steve: *I think we are getting quite close to the point of it being table stakes. It is going to be difficult to invest with confidence, create a program, execute effectively, and generate consistent returns without this increased data. In terms of the notion of how many are really taking full advantage of this competitive advantage, it is hard to tie the availability and analysis of data through to the performance. This is because there is a long-term horizon for these things and there are many other factors at play. However, what we can say definitively is that investors are able to craft programs that are even better suited to their particular risk appetites as a result of this data.*

Abi: We are now seeing a lot of change and innovation happening in the world of secondaries. What is ILPA seeing and doing related to this evolution in PE?

Steve: *Looking at the developments in aggregate, it is a positive for the industry. From the LP perspective, the ability to manage programs in different and creative ways can only be viewed through a positive lens. The flipside of that equation is that some of these types of strategies and specific transactions come with their own set of considerations. What we have been trying for the past couple of years, is to identify the areas where gaps could open-up between LP and GP interests, and how we seek to address that.*

Abi: The nature of LPs in PE has evolved as well. In summer, the DOL put out a letter highlighting the access for retail investors into PE. How do you think that affects the LP community? How do you see that mix changing over time and in what time frame?

Steve: *It is a really important issue for the industry. We have already seen the entry of a lot of retail capital into PE. From the LP perspective, there are a couple of things we should consider as these pools represent enormous sums of capital. Firstly, if we see a significant increase in capital, what does it mean for return expectations and for access of managers to the vehicles created to invest that money? Secondly, it is reasonable to forecast that regulators would want to continue to devote more of their time on oversight.*

Abi: The PE industry has been a target to go after in the media. Is there anything that ILPA is doing to help the broader world understand PE's role?

Steve: *We are certainly trying to. The scrutiny that PE is seeing, is significant and not likely to decrease anytime soon. There is a premium on proactive ongoing engagement with stakeholders such as policymakers, policy shapers, the press, the beneficiaries of these pools of capital, and the communities that we touch by our investment activities. All these need more time, attention, and proactive leadership from GPs and LPs alike in explaining PE as an asset class.*

Abi: How do LPs weigh diversity, inclusion, and ESG versus financial returns?

Steve: *In my mind, they are not mutually exclusive pursuits. At a fundamental level, the risk management that is at the core of ESG is a contributor, positive or negative, to investment outcomes. We underappreciate those from an investment results perspective. It seems to me that these are central themes to the evolution of the PE industry if we want to continue to attract the sort of talent that will allow us to continue to generate these returns.*

Abi: Maybe the last thing we can discuss is COVID-19. What do you think are the positive permanent changes you expect to see in the LP-GP dynamic?

Steve: *I think that there is reason to be encouraged by how the industry has navigated through the pandemic and I think in some ways, it has positively reinforced the LP-GP relationship. We have seen the spirit of partnership shine through with regards to communicating and interacting effectively. I think it will be good for all of us to reflect on how we can leverage technology even when there is the possibility of getting back on the road because we have proven that there are some things, we can do differently that are not just reactive but put us in a better position going forward.*