

Les Fallick: fund sizes will drop

The managing director of Sydney's Principle Advisory Services, an Australiasian placement agent and advisor, expects factors including the 'denominator effect' and risk perception to decrease the size of re-ups and lengthen fundraising times. He also thinks Russia- and Brazil-focused funds are in for a tough time.

posted - 16 Oct 2008 04:16 GMT
updated - 16 Oct 2008 04:24 GMT

How will the global financial crisis affect private equity fundraising over the next 12 months?

Les Fallick, managing director at Sydney's Principle Advisory Services, said:

"The denominator effect is real. Pension funds have fewer dollars to deploy in alternative assets as a result of the decline in the value of their listed portfolios which creates the effect of being overweight in private equity. Risk, or the perception of risk, is heightened. Animal spirits and irrational exuberance are in short supply. Depressed stock markets mean that there are fewer IPO exits and the economic downturn means there are fewer trade sales. The debt drought has real effects and investors know this. Accordingly, investors know that it is tougher to make returns in buyouts. While investors hear us when we say that now is a good time to buy, they don't feel confident enough to act on it. It's an easier decision not to take a proposal to your investment committee than to go out on a limb.

Given all of the above, the implications for fundraising are as follows: Dollar allocations to private equity will be significantly lower in 2009 than in 2008; re-ups to well-established names will continue but for reduced dollar amounts; new GP names and under-performing funds will find life very difficult; there is no "benefit of the doubt"; fundraising timetables will lengthen to 24 months and some funds will simply not make it; fund sizes will decline and the number of funds coming to market will also decline; India and China will continue to attract assets but Russia and Brazil will suffer badly; overall, emerging markets will experience reduced momentum; large Australian LPs will keep their heads and maintain commitment to the asset class; less committed and less experienced investors will "retire hurt"; it's not clear what will happen in the fund of funds market, but my guess is that it will contract."

Fallick shared his perspective as part of the upcoming Fundraising Compendium in sister magazine [Private Equity International](#).