Getting the timing exactly right has always been almost impossible in private equity! We’ve seen good «vintages» of investments emerge when traditional financial markets are in turbulence, Oyvin Furustol, Senior Investment Advisor at LGT, says in an interview.

Oyvin Furustol, borrowing is more expensive with central banks tightening monetary policy. Is this a concern for private equity, which is so heavily reliant on financing for deals?

The private equity industry, at least as we know it today, is a fairly modern invention of about 40 years. It’s mostly grown up in times of falling inflation, so it’s hard to draw conclusions from the past. What I can say is that for a top-tier manager, most of the value creation in private equity is due to operational improvements.
What Does Market Sell-off Mean for Private Equity?

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Leverage and multiple expansion, the factors that would be more affected by inflation and by rising interest rates, make for a smaller portion of private equity returns.

Where is the valuation of private equity during this period of market volatility compared to public markets?

We haven’t seen the same impact on valuation in private equity investments as we have in traditional equity markets during the first half of this year. I don’t want to say private equity is somehow immune to the fluctuations we are seeing in some listed securities: We might expect to see some lower valuations in private equity funds in coming quarters.

Where could we see valuations lowered?

The venture segment is most likely to be impacted as follow-on financing suffers from a lower risk appetite. Buyouts are on a relative basis less impacted as it largely depends on the profitability of companies operating businesses.

What does that mean for investors?

If valuations come down, it means that private equity managers can invest at lower multiples. In a more dire market, I would also expect interesting investment opportunities emerging where managers can buy assets in the secondary market at discounts to the net asset value.

This is beneficial to private equity investors. However, this may come at the expense of longer investment periods and delayed realization of returns.

Where is private equity proving resilient to the volatility we see in markets?

Private equity investments tend to focus on sectors like information technology, healthcare, or financial services. These sectors are typically less reliant on economic cycles or fluctuations in raw material prices. Companies in private equity hands also typically have experienced active owners who have a long-term approach with a lesser focus on short-term earnings, which helps in this respect.

Shouldn’t private investors just wait for the dust to settle?

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turbulence.

*Can you give us an example?*

European buyout funds have a significantly better performance on average for fund vintages out of years with stronger setbacks in traditional equities. Also, even if an investor commits to a private equity fund today, it still means that the capital will be deployed over the next two to five years.

*Do you see a change in demand or in behavior from private clients?*

Some clients are curious about what the current volatility means, but we continue to see strong demand for private equity investments. Most private clients are underinvested in this asset class, though we have seen demand pick up recently for direct strategies that focus on impact, and secondaries.

*How much private equity should investors have in their portfolio?*

It’s very individual to the client and factors such as their risk profile or how much liquidity they will need over the life cycle of the potential investment. For wealthy private investors with a long-term view, this portion could be significant. Our flagship multi-asset portfolio – the Princely Portfolio – has a strategic private equity weight of 22 percent.

*For investors not willing to go that far, how can they dabble while still minimizing their risks?*

It’s important to be selective, maintain a long-term approach, and to spread your exposure across different vintages of private equity, strategies, styles, and geography. The Key is to build a robust portfolio within a risky asset class.

**Oyvin Furustol** is a senior investment adviser at LGT, where he is responsible for distribution of private market investments. After obtaining a master’s degree in economics at the University of Fribourg, Furustol worked for the KOF Swiss Economic Institute and for a major Swiss bank in various investment roles before joining LGT in 2015. A Norwegian and Swiss citizen, Furustol is a CFA charterholder.