

**Fact: The World Has Added 700 New PE Firms  
Four Facts About the State of PE**

**David Snow, Privcap:**

Today we're joined by David Wachter of W. Capital Partners, Steven Millner of Gen II Fund Services, and Russ Steenberg of BlackRock Private Equity Partners.

Today we're talking about mind-blowing facts that will change your perception of the future of the private equity asset class. Luckily, I've got three experts of the private equity industry who are here to talk about it. I'm fascinated to hear what you have to think about this fact, which is that since the beginning of the great recession, the world has added 700 active private equity firms. So these are 700 incremental active private equity firms to the existing large population of private equity firms in the world.

Steve, does the world need 700 additional private equity firms? Where did they come from? And I thought that they would've gone away in the face of a protracted recession.

**Steven Millner, Gen II Fund Services:**

Well, as someone who services private equity funds, I don't think that 700 is enough.

You know, I think that the asset class grows because there's demand for the product. And in a yield-depressed environment where pension managers and others need a certain benchmark return, private equity, frankly, if you look at any of the numbers, is really the one asset class that can really help a portfolio manager meet their investment objectives.

So I think that the size of the market, you know, it's supply and demand, ultimately. It's Eco 101. And I think there are 700 fund sponsors because there *needs* to be 700.

**Snow:** But, Russ Steenberg from BlackRock, why wouldn't the world of investors just give all their extra money to Blackstone and just let Blackstone and KKR manage it all?

**Russell Steenberg, BlackRock Private Equity Partners:**

Well, Blackstone and KKR certainly have a place in the world. They have defined strategies, and they do various things very well. But that's not to say that you want a concentrated portfolio, then. I mean, diversification has always been the key in this asset class. And the reason, first of all, I believe 700 is a gross number, not a net number. And of course, then, if you want to put the definition of "zombie" in there, I'm not sure you're in positive territory. That's one point.

Second point is, if we have a little thing going on, and has been going on for the last ten years in private equity—which surprised me with your 700 number, David, that it was so low—and that's called globalization. There are more firms not in the U.S. and in Europe today in private equity than there's ever been before. And the number of firms that are growing, certainly, are probably stronger in the nondeveloped world than they are in the developed world. And that will continue.

**Snow:** Russ makes an interesting point, David Wachter, which is that the existing population of active private equity funds, in some cases, is fairly unhealthy. You see some of these firms. And so talk about the dynamics of a sort of long-in-the-tooth firm giving rise to new firms because some of the more talented people within the firm spin out and do their own thing.

**David Wachter, W Capital Partners:**

That's got to contribute a lot to the 700 number that you referenced. Spinout firms and teams that have left larger institutions because they have a passion for a particular niche or an expertise for a particular niche, I think it's a great thing. The industry has to continue to reinvent itself, in terms of strategies and geographies and stages of investment. And as more and more of the economy, as we've discussed, continues to move into private equity hands, it's very logical that new firms and new generations of partners and new strategies are developing.

**Snow:** Steve, I thought that the barriers to entry were rising in private equity, and yet we still continue to see these new groups being formed. It sounds like a lot of these very ambitious, talented people are undaunted by the new regulations and the higher expenses of running a private equity firm.

**Millner:** I think the difference is—as opposed to, say, 15 years ago, where you may have had two or three smart people and think they're going to start up a PE fund—today I don't think that that's possible. I think you need a much larger and deeper team. The

ideas, motivations, the objections, the passion hasn't changed. But the resources necessary to get started have certainly changed.

**Snow:** What is the bare minimum needed to start a private equity firm? Russ, would you back a three-person team, plus a CFO and an outsource provider? What is a private equity firm at its baseline?

**Steenberg:** There are certain things you need in today's world, as Steve certainly has explained, which are higher sets of hurdles than you've had in the past because of the world that we're in today—which is why I think it's harder to start a firm today than it ever has been. Fundraising, part of it; regulation being part of it; limited partners pruning portfolios and cutting down in the number of general partners that they have. So I think a first-time fund in today's world is harder today. The bifurcation of the general partner group, relative to fundraising, which we've talked about. I think first-time funds are harder today to raise than ever before.

Having said that, three guys with an assistant—if they have the right strategy and they're in the right niche—just because it's four people, we're not saying no.

**Wachter:** I think there's a question of definition of what's a private equity firm. Three guys with access to a family office is a private equity firm; they just don't have a pool of committed capital with discretion on it. But there's a lot of new sources of capital moving into private equity that are not in the fund structure anymore, whether it's the sovereigns or family offices getting more and more active on their own, to the point where they are very hungry, active co-investors with their GPs, but they're also looking to build their own teams to make primary decisions to build portfolios of private companies.

**Millner:** There was a compression. There was a dearth of emerging managers for a number of years. And LPs were consolidating their managers. I'm telling you, when we look at what our pipeline looks like, it's never been more fulsome with emerging managers—i.e., first-time funds—than it is right now.

So there's something going on. There's a change of the landscape. Folks going out and wanting to become entrepreneurs. Maybe people leaving the bigger firms and wanting to put their shingle up.

**Snow:** Do you sense that, Russ?

**Steenberg:**

Yeah, one of the things that we are seeing—and as a result, we do, and have done, a lot of first-time funds, historically—is it's not in the venture world: a dentist who decides to be a venture capitalist, or three investment bankers, and decide our business is real easy, so that they're going to go out and raise a fund. You know, those days are long gone. These are accomplished people that have usually been in other places that usually have long track records, which you can calibrate so that you can make a judgment on them as to whether or not they can create value with their particular strategy.