

Dentons Asset Management & Investment Funds Industry Insider

An interview with Warwick McDonald,
Partners Group

1. Background

Ted: I think most of us are familiar with Partners Group. However, as a reminder, your website says you have US\$94 billion in AUM investing in private equity, private real estate, private infrastructure, private debt and liquid private markets, with more than 1,400 professionals across 20 offices worldwide serving more than 900 institutional investors. In that context, please give a brief description of your role at Partners Group.

Warwick: I am Regional Head of our product structuring team, and am responsible for Continental Europe. I focus on our closed-ended products, and take care of their full life cycle, and client negotiations (conversions), as well as looking at process improvements, automation and knowledge/business development.



Ted Craig
Head of Private Funds UK
Dentons



Warwick McDonald
Head of Structuring
Continental Europe
Partners Group

2. Fund structuring challenges

Ted: There has obviously been a great deal of discussion recently relating to the impact of COVID-19 on various aspects of the PE industry. It would be fantastic to get your thoughts on the impacts on fundraising and structuring. Before we do, and to put them into context, please describe some of the issues, challenges and trends that you have encountered in the last five to 10 years.

Warwick: Over the last five to 10 years, there has been a clear trend towards increased regulation and scrutiny of the industry. Regulators have tended to group private equity with other private markets, such as hedge funds, which has led to broad-brush changes which are not necessarily relevant to all private markets and so, in some cases, that has proved challenging.

This period has also witnessed the rise of separately managed accounts, in the form of mandates or funds-of-one, which have grown significantly as part of our service area, and continue to do so as investors build their exposure to what is now a mature industry. Often, mandate clients are looking for very tailored structures and co-investment access to deals. This can be a useful arrangement for both parties. However, its workings should always be carefully considered from both sides – can the investor react quickly enough on the deals being offered, and can the GP ensure that the allocation process operates smoothly, efficiently and quickly?

Finally, liquidity is playing an increasing role in product offerings – both on the client and the GP side. In the fund space, we see this in the exponential development of the secondaries market and its effect on the size of secondaries funds. Lastly, there is the strongly increasing appeal of semi-liquid products, allowing investors to redeem their interests, subject to certain circumstances and requirements.

Ted: And the issues and challenges that you have experienced in the last six months, both in terms of funds currently being structured, raised and closed and also funds that are already operating and making and managing investments?

Warwick: To focus on the most noteworthy event of the last six months, this initially resulted in a large influx of defensive investigations to cover what-if situations, examining fund terms to see what would be possible in certain extreme scenarios. Research covered areas such as recallable distributions, annex

funds and rescue funds/facilities. We were able to reassure ourselves that we have the right protections in place. As the crisis panned out, we did not need to activate our emergency plans, but it was a good exercise in knowing what can be done and how easily in the given timeframe. Alongside this, fundraising continued, so there was plenty to keep us occupied!

3. Impact of variables: type of investor, geography, asset class

Ted: Turning our attention to some of the key variables relevant to fundraising and structuring, have you experienced any differences emerging between, for example, types of investors, locations of investors or fund strategies, including geographic focus and asset class?

Warwick: Mandates in particular continue to be important to our clients, especially in Germany. I believe that the reaction of public markets to the COVID-19 crisis can only serve to strengthen the case for private market exposure.

4. Predictions that will impact fundraising and structuring

Ted: How do you think fundraising and structuring will be changed following the current crisis, from practical, day-to-day considerations to macro changes?



Warwick: In the near-term future, there is obviously a different way of doing business, focusing on virtual interaction and maintaining connections and collaboration, as well as a protective stance with regard to health measures. As time progresses, I would expect that fundraising, structuring and investing will return to something resembling the pre-COVID-19 situation.

Ted: Do you think that, as an industry, there is anything PE could be doing better to address the challenges created by COVID-19?

Warwick: Our stewardship philosophy on portfolio companies means that we make a point of ensuring that we are improving them as businesses for all stakeholders, including employees.

With this in mind, in April we reacted to the COVID-19 crisis by raising a US\$10 million Portfolio Employee Support Fund. Our Co-CEOs, together with our Chairman and our founders, agreed to forgo 100% of their salaries for at least six months to support the fund. There has also been broad participation from our employees from across all regions – Partners Group as a firm contributed too.

Longer term, we remain committed to developing a Stakeholder Benefits Programme which aims systematically to re-invest a portion of achieved profit growth for the benefit of portfolio company employees and other stakeholders.



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5. ESG predictions

Ted: Pre-COVID-19, the PE industry had seen an increased focus on ESG. How has Partners Group seen this increased focus manifest itself? Do you think this increase will continue post COVID-19 or will momentum stall as attention moves elsewhere?

Warwick: With the EU Sustainable Finance Action Plan, there is a clearly signposted agenda for this topic and it has been kept firmly on the table. I therefore think that European attention will remain fixed on ESG, and the roll-out in respect of the Action Plan will of course mean change in all geographies for global firms with a presence in Europe. Recent global unrest only serves to highlight the need to keep this focus. At Partners Group, we are a long-standing responsible investor with a strong commitment to sustainability. Creating lasting positive impact is one of the core principles of our firm's charter and one that applies to all our activities. It guides our investment activities, our corporate activities and our daily interactions with all of our stakeholders.

6. Working from home

Ted: Finally, what is the best thing about working from home? And the worst?

Warwick: The best aspect of working from home was certainly the dress code! On the negative side, I missed my colleagues and the atmosphere in the office, as well as the separation of work and free time. Overall, I am very pleased to be back and feel much more a part of the team when we are all working in one place together.