

# PRIVATE EQUITY manager

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## Making the most of your annual meeting

**LPs want substantive communication during annual meetings these days. Here are some tips on how to make your next meeting as engaging – and reassuring – as possible. By Nick McAlpine of communications firm Bladonmore.**

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A major event in the calendar of every private equity house is its annual investor meeting. Once an excuse for some gentle back-slapping and a decent lunch, these now present an opportunity for firms to demonstrate a clear strategy and a sustainable approach to investing over the long-term. Based on our experience of working with some leading private equity firms on their investor communications, we present some advice on effective LP communications and, in particular, some suggestions for maximising the impact of an annual meeting in today's more sober economic climate.

Don't bury bad news. Investors will always have high expectations but they don't expect miracles. Not every investment will achieve double-digit IRR and the odd write-down is par for the course. Investors do, however, expect an update on underperforming investments as well as those that are doing well. During the boom years a portfolio update might have consisted of a review of selected portfolio companies and any recent investments. Nowadays LPs want an update on the performance of all portfolio holdings, details of cost containment activities and an ability to ask questions to the teams working on each company. Many private equity firms have shifted their focus to preserving the value of their existing holdings by cutting costs, saving cash, and surviving until deal activity picks up again. Effectively communicating the scope and impact of these activities is crucial.

Understand the long game. You are asking investors for money that may not be returned to them for ten years or more – so don't be surprised if LPs enquire as to your firm's own long-term strategy. This will include future fundraising and succession plans.

The billions returned to investors during the go-go years made small fortunes – and in some cases large fortunes – for private equity firms and their principals. There is a need to convince LPs that the key individuals at the firm will work as hard to generate top quartile returns for the next generation of investors as they did for the last generation. An annual meeting can be a benign environment to introduce investors to the deeper pool of talent at the firm, to start to build stronger relationships at a firm-wide level and demonstrate the sustainability of the business.

The author is aware of one mid-market UK firm with a very comprehensive succession plan in place. One of the partners plans to retire after the next fundraising, likely to be within two or three years. Another has already indicated he will depart when that fund has been invested. The remaining team – all currently in their mid-40s – have a long period of time over which to build strong relationships with the firm's LP base. By the time the principals actually leave it will be interesting to see whether investors even register it as an event. The private equity industry – like any other – is not without its egos but by communicating the depth of expertise within the firm and ensuring that LPs understand the long-term plans of the principals, private equity houses can ensure their own businesses are as sustainable as the ones they invest in.

Never stop talking about the alignment of interest. Private equity works because of the alignment of interest between investors, managers and company executives. The best private equity firms understand the needs and concerns of their LPs and work to ensure that interests are aligned over a reasonable period. The lack of deal activity is hitting distributions to LPs, which combined with relatively lacklustre returns at some firms, is putting pressure on management fees – typically 2 percent of assets under management. Some LPs have called for managers to reduce or even suspend fees during this lull. Bear in mind the economic and structural relationships of the private equity industry are not set in stone. Firms that show a willingness to examine these ties – either by considering requests from LPs not to draw down historic commitments or changing the fees structure to take account of a muted deal environment – are likely to enjoy more fruitful relationships when the industry experiences the good times again.

Make it a two-way conversation. When was the last time you asked an LP whether they wanted to know more information? Did you get meaningful feedback on your most recent annual meeting? Firms that have a more regular dialogue with their investors about current investment needs and opportunities are more likely to find the backing for their long-term objectives than those that only surface when they need something.

Use video to engage your audience. A short film showcasing a portfolio company, setting out the firm's investment rationale and detailing any operational improvements made since acquisition can resonate far more – even in front of a sophisticated LP audience – than another man in a suit talking for an extra five minutes. Film remains the most evocative and emotive way to connect with an audience and many private equity firms are now creating short deal case study pieces to demonstrate the value inherent in some of their investments. Such a film might also allow firms to include a controlled contribution from a portfolio company's management team. Any film content generated for the annual meeting can frequently be used – possibly with a small edit – to bolster communications with potential vendors, employees and other stakeholders.

Harness the power of the Internet. Secure investor areas of private equity firm websites can carry a huge amount of important information. However, many sites are very user-unfriendly so investors logging in for a short visit might not be able to find what they want very easily. A well structured and cleanly designed extranet can add significant value to the quality of your investor communications. As well as making the information available in an intuitive fashion, an extranet could be used to automatically distribute quarterly reports, offer immediate links to the latest announcements and a range of value added materials such as video and audio content. Live webcasting of your annual meeting for investors who are unable to travel to the event can be very expensive but why not record the event and upload either video or audio files together with the various PowerPoint presentations when the meeting is over?

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