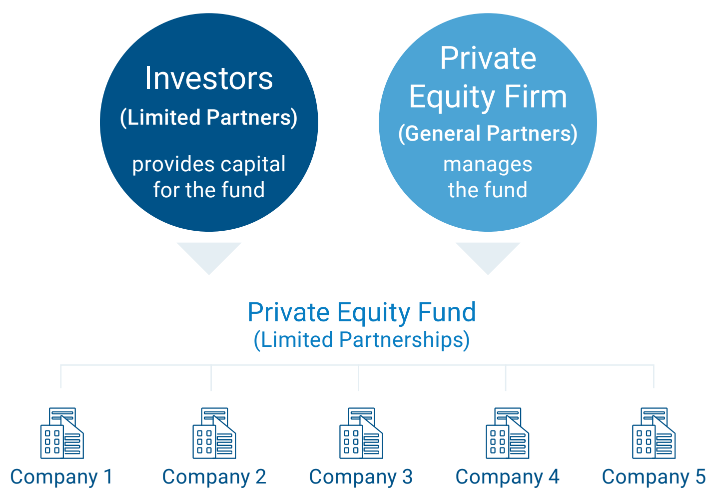
Private Markets Players: Roles and Responsibilities

If you're new to private markets, you may be wondering: "Who are the key players and how do they fit within the broader investing ecosystem?" Some of the main private markets players include, but are not limited to, private equity (PE) firms, general partners (GPs), limited partners (LPs) and the portfolio companies that they invest in. These entities work with investment banks and venture capital (VC) firms, among others, to raise, invest, collect and distribute capital. In a bit more detail, here is an overview of private markets players and how they work together:

Who Are the Key Players in Private Capital Markets?

Private Equity Structure



- **Private Equity Firms:** These are the main entities that raise capital from institutional investors, high-net-worth (HNW) individuals, and other sources to form PE funds. PE firms manage these funds and invest in private companies or acquire public companies to take them private.
- **General Partners:** The general partner is the manager of a private markets fund, often operated by the PE firm. These managers oversee distributing capital to and collecting it from LPs (often referred to as "capital calls")

WHAT YOU SHOULD KNOW:

- The key players in private capital markets are private equity firms, general and limited partners, and portfolio companies.
- Each player's role revolves around their relationship to the investments made and the opportunities and liabilities involved in realizing those investments.
- Financial intermediaries and additional private markets roles provide the key players with operational and advisory support to execute investments throughout their life cycle.

- **Limited Partners:** Typically, a PE fund is organized as a limited partnership. The individuals and institutions who invest in the fund are LPs. They have limited liability and do not participate in day-to-day fund management.
- **Portfolio Companies:** These are the companies or entities in which a PE fund invests directly. There are typically multiple portfolio companies in a PE fund, where each fund revolves around an investment theme (i.e., real estate, infrastructure, venture capital).

What Are the Roles and Responsibilities of Private Equity Firms and Partnerships?

Within the private markets ecosystem, each of the players outlined above has a distinct role with different responsibilities and levels of involvement:

	Investment Role	Services Managed	Opportunity	Liability
PE Firms	Capital Raisers	Strategic Advice and Support	Some Profit Share	Secondary, Tax, Professional, etc.
GPs	Active Managers	Fund Operations	Majority Profit Share	Unlimited
LPs	Investors	Capital Contribution Only	Minority Profit Share	Limited
Portfolio Companies	Investees	Investment Terms Fulfillment	Company Financing	Contractual, Tort, Regulatory, etc.

Private Equity Firms:

- **Capital Raising:** PE firms raise capital by acquiring investment commitments from LPs and outside financial institutions. They may contribute their own money to the fund as well.
- **Due Diligence and Investment Analysis:** As PE firms analyze potential acquisitions, they consider many factors, with a focus on potential exit scenarios. Some of these include: 1) the industry in which the company operates, 2) what service or product the company offers, and 3) how the company's management contributes to its financial performance.
- **Fund Formation:** PE firms create PE funds through which investments flow. When capital is raised, PE firms allocate it to these funds for GPs to manage and LPs to invest in.
- **Management Improvements:** PE firms provide portfolio companies with strategic advice and support, ranging from financial management to operations. Common improvements include creating operational efficiencies through cost-cutting and restructuring. Management's degree of involvement often depends on the size of their stake in each company.
- **Creating Profit:** PE firms generate profits by exiting portfolio companies (typically three to seven years after their initial investments). Through cost-cutting, debt reduction, capital optimization and revenue growth, PE firms aim to sell portfolio companies at a profit of which they receive a percentage.

General Partners:

- **Responsibility:** The GP is the active manager of the PE investment fund. They make the day-to-day decisions regarding which companies or assets to invest in, how to manage those investments and when to exit them.
- **Management:** GPs are responsible for overseeing the fund's operations, implementing the investment strategy, conducting due diligence on potential investments and negotiating deals.
- **Liability:** GPs typically have unlimited liability, meaning they are responsible for any debts or legal obligations of the fund. GPs may become personally liable if the partnership becomes insolvent.
- **Profit Share:** GPs usually receive the majority share of the profits generated by the fund, known as carried interest. This share is often a percentage of the fund's profits above a certain threshold, once the LPs have recuperated their capital.

Limited Partners:

- **Investor Role:** LPs are investors in the PE fund. They provide the capital that the GP will use to make investments.
- **Limited Liability:** Unlike GPs, LPs have limited liability. They are only responsible for the amount they have invested in the fund and are not personally liable for the fund's debts or legal obligations beyond that.
- **Decision-Making:** LPs do not have an active role in the general management or decision-making of the fund. They entrust the GP with these responsibilities.
- **Profit Share:** LPs benefit from the fund's profits, but they primarily receive their return on investment (ROI) in the form of capital gains, dividends, or other distributions generated by the fund's successful investments and company financing.

Portfolio Companies:

- **Investees:** Also known as an "investee company," portfolio companies are companies or legal entities in which PE funds invest. These include venture capital firms or buyout firms, as well as holding companies that own equity. More broadly, any company that a PE firm holds an interest in is considered a portfolio company.
- **Investment Types:** Portfolio companies receive investments in various ways. Three tried and true methods are 1) leveraged buyouts (LBOs) where the portfolio company's assets are used to raise capital and sometimes inject liquidity to finance the buyout, 2) venture capital where PE firms provide portfolio companies with capital in exchange for equity stake, and 3) growth capital, where PE firms finance and acquire companies, restructure costs, or develop a new product to expand into new markets.
- **Exits:** Portfolio companies can be exited in several ways. Some of the most common 1) include initial public offerings (IPOs) where a company is listed on a public exchange and the PE firm can exit their stake, 2) strategic sales, which occur when another company acquires the portfolio company to realize material synergies and 3) secondary buyouts in which a portfolio company is sold to another PE firm.

So, in simple terms, PE firms receive money from investors, which they then invest in businesses to make those businesses more successful. When these portfolio companies become more valuable or an investment target is reached, the PE firms may sell them to other companies or investors to make a profit, or capitalize through successful IPOs.

Who Are the Financial Intermediaries and What Is their Role?

Not all private markets players work within PE firms. Financial intermediaries play an important role in the fundraising, due diligence and preparation of PE funds as well. Below are the main intermediaries with whom PE firms work to operate efficiently.

- **Investment Advisors:** An individual or an organization that provides investment advice for compensation. Investment advisors that manage substantial assets must register with the jurisdictions in which they are incorporated (i.e., the Securities Exchange Commission in the U.S. or the Financial Conduct Authority in the U.K.).
- **Placement Agents:** A third-party firm that helps GPs fundraise. Placement agents can be as small as a one-person firm or as large as a global investment bank. Regardless of size, placement agents must be registered with their jurisdiction's regulatory agency (i.e., the Securities and Exchange Commission in the U.S. or the Financial Conduct Authority in the U.K.).
- **Underwriters:** This is typically an investment bank (see below), which helps a company organize a share offering for potential investors. Investment banks issue debt and equity securities on behalf of corporations and governments to generate investment capital. The managing underwriter assists the company with preparation of the prospectus and organizes the syndicate of underwriters to sell the securities.

Additional Private Markets Players

Beyond PE firms and financial intermediaries, there are many different players that operate in the private markets ecosystem. Here is a list of some of the common ones:

- **Investment Banks:** Investment banks play a role in facilitating PE deals. They may advise PE firms on potential investments, conduct due diligence, or assist in the acquisition or divestment process.
- **Venture Capital Firms:** While venture capital is a specific type of PE, it's worth mentioning that venture capital firms focus on investing in early-stage companies with high growth potential, typically in technology or innovation-driven sectors.
- **Management Teams:** In some cases, the existing management team of a target company may partner with a PE firm to lead the company's transformation and value creation efforts.
- **Advisory and Consulting Firms:** These firms may be engaged to provide specialized expertise, due diligence, strategic guidance, or operational support to both PE firms and their portfolio companies. Specific advisory firm players are listed above in the financial intermediaries section.

It's important to note that the level of involvement and the specific roles of these players can vary depending on the type of PE investment and the specific deal structure involved. Additionally, the PE industry is highly dynamic, and new types of companies or players may emerge over time. Check out additional private markets content from the Knowledge Center to keep up to date.

DISCLOSURES

As of October 30, 2023 unless otherwise noted.

This document has been prepared solely for informational purposes and contains confidential and proprietary information, the disclosure of which could be harmful to Hamilton Lane. Accordingly, the recipients of this document are requested to maintain the confidentiality of the information contained herein. This document may not be copied or distributed, in whole or in part, without the prior written consent of Hamilton Lane.

There are a number of factors that can affect the private markets which can have a substantial impact on the results included in this analysis. There is no guarantee that this analysis will accurately reflect actual results which may differ materially. These valuations do not necessarily reflect current values in light of market disruptions and volatility experienced in the fourth quarter of 2020, particularly in relation to the evolving impact of COVID-19, which is affecting markets globally.

The information contained in this presentation may include forward-looking statements. Forward-looking statements include a number of risks, uncertainties and other factors beyond our control which may result in material differences in actual results, performance or other expectations. The opinions, estimates and analyses reflect our current judgment, which may change in the future.

All opinions, estimates and forecasts contained herein are based on information available to Hamilton Lane as of the date of this presentation and are subject to change. The information included in this presentation has not been reviewed or audited by independent public accountants. Certain information included herein has been obtained from sources that Hamilton Lane believes to be reliable but the accuracy of such information cannot be guaranteed.

This presentation is not an offer to sell, or a solicitation of any offer to buy, any security or to enter into any agreement with Hamilton Lane or any of its affiliates. Any such offering will be made only at your request. We do not intend that any public offering will be made by us at any time with respect to any potential transaction discussed in this presentation. Any offering or potential transaction will be made pursuant to separate documentation negotiated between us, which will supersede entirely the information contained herein.

The information herein is not intended to provide, and should not be relied upon for, accounting, legal or tax advice, or investment recommendations. You should consult your accounting, legal, tax or other advisors about the matters discussed herein.

Hamilton Lane (UK) Limited is a wholly-owned subsidiary of Hamilton Lane Advisors, L.L.C. Hamilton Lane (UK) Limited is authorized and regulated by the Financial Conducts Authority. In the UK this communication is directed solely at persons who would be classified as a professional client or eligible counterparty under the FCA Handbook of Rules and Guidance. Its contents are not directed at, may not be suitable for and should not be relied upon by retail clients.

Hamilton Lane Advisors, L.L.C. is exempt from the requirement to hold an Australian financial services license under the Corporations Act 2001 in respect of the financial services by operation of ASIC Class Order 03/1100: U.S. SEC regulated financial service providers. Hamilton Lane Advisors, L.L.C. is regulated by the SEC under U.S. laws, which differ from Australian laws. The PDS and target market determination for the Hamilton Lane Global Private assets Fund (AUD) can be obtained by calling 02 9293 7950 or visiting our website www.hamiltonlane.com.au.

Hamilton Lane (Germany) GmbH is a wholly-owned subsidiary of Hamilton Lane Advisors, L.L.C. Hamilton Lane (Germany) GmbH is authorised and regulated by the Federal Financial Supervisory Authority (BaFin). In the European Economic Area this communication is directed solely at persons who would be classified as professional investors within the meaning of Directive 2011/61/EU (AIFMD). Its contents are not directed at, may not be suitable for and should not be relied upon by retail clients.