Who Are the Key Players in Private Capital Markets?

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, consultants and private lenders, among others, to raise, invest, and distribute capital. In a bit more detail, here is an overview of private markets players and how they work together:

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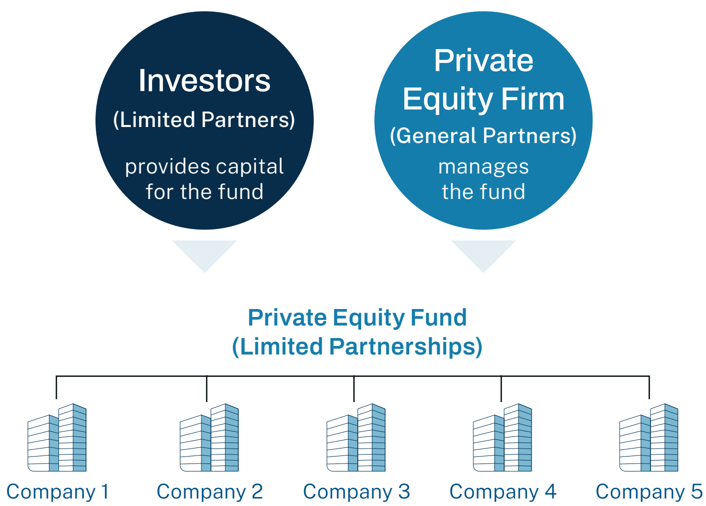
Private Equity Structure



- **Private Equity Firms/General Partners:** PE firms, also referred to as GPs, are the managers of a private markets fund. They are the main entities that raise capital from institutional investors, high-net-worth (HNW) individuals and other sources to form PE funds. PE firms/GPs manage these funds and invest in private companies or acquire public companies to take them private.
- **Limited Partners:** Typically, a PE fund is organized as a limited partnership. The individuals and institutions who invest in the fund are LPs. LPs have limited liability and do not participate in day-to-day fund management.

WHAT YOU SHOULD KNOW:

- The key players in private capital markets are private equity firms/ general partners, 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 lifecycle.

- **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?

Each of the players in PE ecosystem have a distinct role with different responsibilities and levels of involvement:

	Investment Role	Services Managed	Opportunity
PE Firms/GPs	Sourcing and Executing Investments	Fund and Investment Management	Earn a Management Fee, and Share of Investment Profits (Carried Interest)
LPs	Capital Providers	Capital Contribution Only	Earn a Premium Net ROI
Portfolio Companies/ Founders	Investees	Day-to-Day Company Operations	Company Funding and Strategic Partnerships

Private Equity Firms/General Partners:

- **Responsibility:** PE firms/GPs are active managers 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.
- **Capital Raising:** PE firms/GPs 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/GPs 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/GPs create PE funds through which investments flow. When capital is raised, they allocate it to these funds for LPs to invest in.
- **Management Improvements:** PE firms/GPs provide portfolio companies with strategic advice and support, ranging from financial management to operations. Common improvements include accelerating the development of new products and services, streamlining operations, and acquiring complementary businesses. Their degree of involvement often depends on the size of their stake in each company.
- **Profit Share:** PE firms/GPs usually receive around 20% 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.

Limited Partners:

- **Capital Providers:** LPs are capital providers in the PE fund. They provide the capital that the GP will use to make investments.

- **Governance:** LPs do not have an active role in the general management or investment decision-making of the fund. They entrust the GP with these responsibilities. LPs have governance rights through the PE fund's Limited Partner Advisory Committee (LPAC), which monitors the GP's activities to ensure the GP is complying with the goals and terms of the PE fund.

Portfolio Companies:

- **Investees:** Portfolio companies are companies or legal entities in which PE funds invest.
- **Investment Types:** Portfolio companies receive investments in various ways. Three common investment types are 1) leveraged buyouts (LBOs) which involves acquiring a control position in a mature company, typically financed with substantial debt (the leverage), with a focus on improving company operations, 2) venture capital where PE firms/GPs provide seed capital for new, early-stage companies or startups, and 3) growth equity, where PE firms/GPs provide funding for a maturing, high growth companies (think of it as a somewhere between venture capital and LBOs on the company lifecycle).
- **Exits:** Portfolio companies can be exited in several ways. Some of the most common include 1) initial public offerings (IPOs) where a company is listed on a public exchange and the PE firm/GP can exit their stake, 2) strategic sales, which occur when another company acquires the portfolio company to realize material synergies, and 3) sales to other financial sponsors, in which a portfolio company is sold to another PE firm/GP.

So, in simple terms, PE firms/GPs receive money from LPs, 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/GPs 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 which PE firms/GPs work to operate efficiently.

- **Investment Banks:** Investment banks play a role in facilitating PE deals. They may advise PE firms/GPs on potential investments, conduct due diligence and assist in the acquisition or divestment process.
- **Consulting Firms:** These firms may be engaged to provide specialized expertise, due diligence, strategic guidance, or operational support to both PE firms/GPs and their portfolio companies.
- **Placement Agent:** A third-party firm that helps GPs fundraise. Placement agents can be as small as a one-person firm or as large as a team at 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. and the Financial Conduct Authority in the U.K.).

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:

- **Private Equity Advisory Firms:** Specialized consulting firms that advise limited partners on private equity portfolio construction, manager selection and legal negotiations with GPs. Private equity advisors are typically hired by institutional investors (such as pension plans) to assist their investment staff.

- **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 most cases, the existing management team of a target company may partner with a PE firm/GPs to lead the company's transformation and value creation efforts.

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.

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