



FOCUSPOINT

PRIVATE CAPITAL GROUP

Market Feedback

January 2021



MARKET FEEDBACK SUMMARY

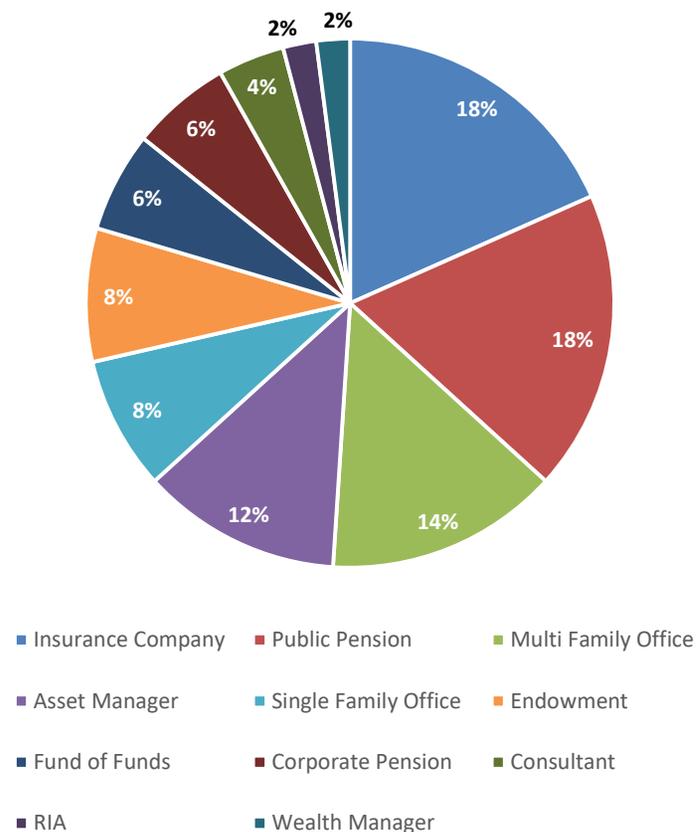
Summary

- FocusPoint reached out to LPs that we have deep relationships with to understand the market and investor preferences
- A total of 75 LPs were reached out, of which we spoke to 49 LPs. The majority were Insurance Companies, Public Pensions, Asset Managers, and Multi Family Offices

Key Findings

- 52% of investors planned to increase exposure to technology
- Some LPs, due to the pullback in allocations, are increasing allocation to tech as they have under allocated in 2020. Generally, LPs are not averse to technology and believe it is something they can't avoid
- Investors are opportunistic – no strong preference for sector or generalist managers
- Fund size around the \$1 billion size is attractive both on the higher end of those specifically looking at lower middle market, as well as larger LPs who use a threshold of \$1 billion as a loose benchmark to fit a commitment without breaking concentration limits
- Co-invest remains important to many LPs

LP Breakdown





MANAGER PREFERENCE

Do you have a preference for a sector specialist or more generalist manager when looking to allocate capital in the coming year?



About half the LPs had no strong preference, but focused more on the qualities of the manager (track record, experience, execution)

- Depends on strategy and can manager execute successfully
- Looking for best athlete. Looking for managers that use the same method of repeatability to be successful

For LPs looking at sector specialists, the focus was around buyouts, technology, and healthcare

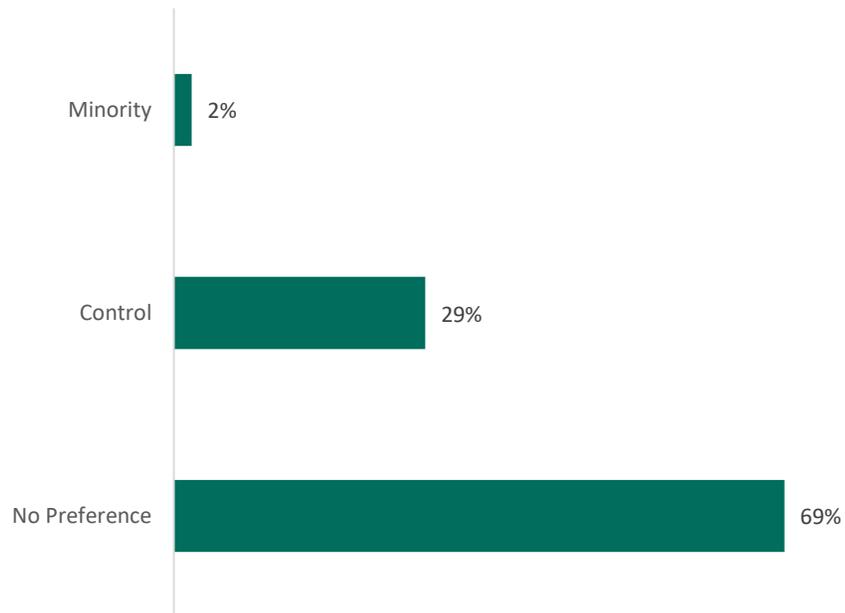
- Averse to areas where we do not have a deep expertise, but that does not mean we won't look at a specific sector – just might take a bit longer. For example, pure technology falls in this category – no issue with financial services

For those interested in generalist managers, the preference was to get exposure all across the board



CONTROL VS. MINORITY

Do you have a preference for control vs minority?



The majority of LPs had no strong preference, but were more interested in the GP's strategy and performance

- Care more about how compelling and differentiated the strategy is
- More concerned with performance
- Really depends on the manager – we prefer a manager that can be flexible/opportunistic

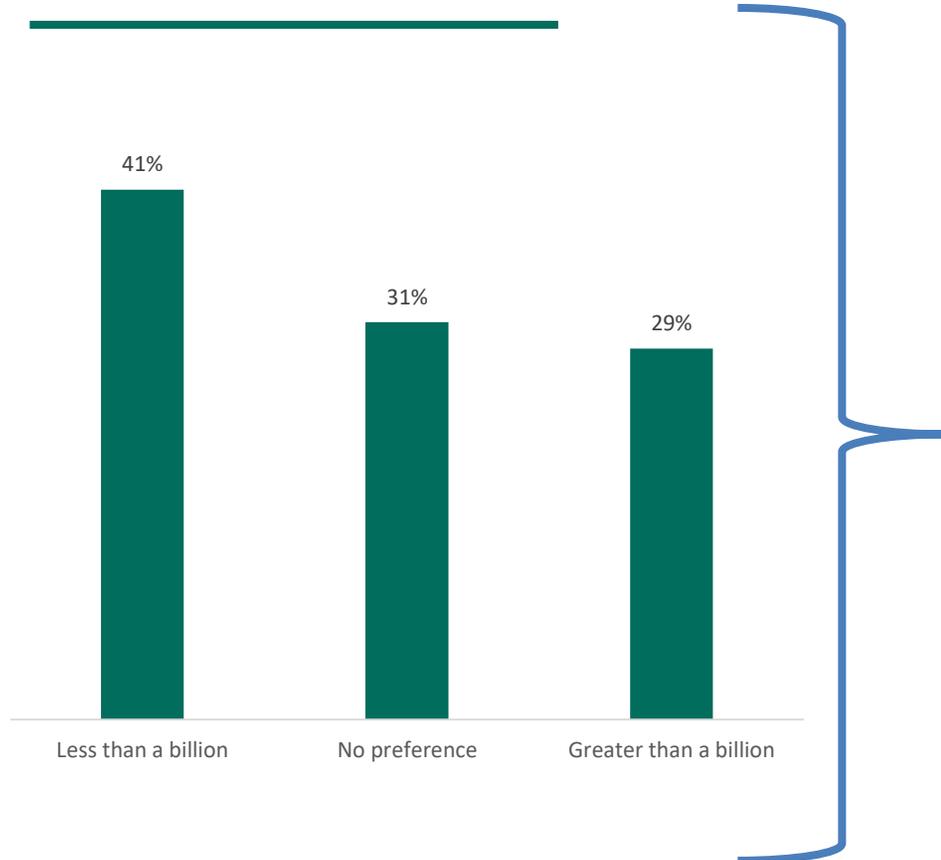
For LPs that cared more about control, they wanted the ability to provide leverage and co-investment

Very limited LPs expressed a preference for minority



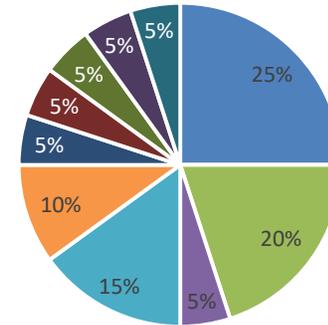
FUND SIZE

What is your fund size preference?

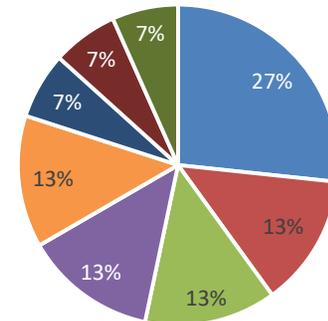


- Insurance Company
- Public Pension
- Multi Family Office
- Asset Manager
- Single Family Office
- Endowment
- Fund of Funds
- Corporate Pension
- Consultant
- RIA
- Wealth Manager

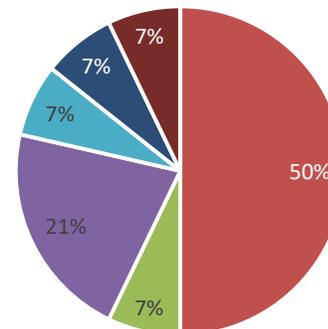
LP types with a preference for less than a billion



LP types with no preference



LP types with a preference for greater than a billion

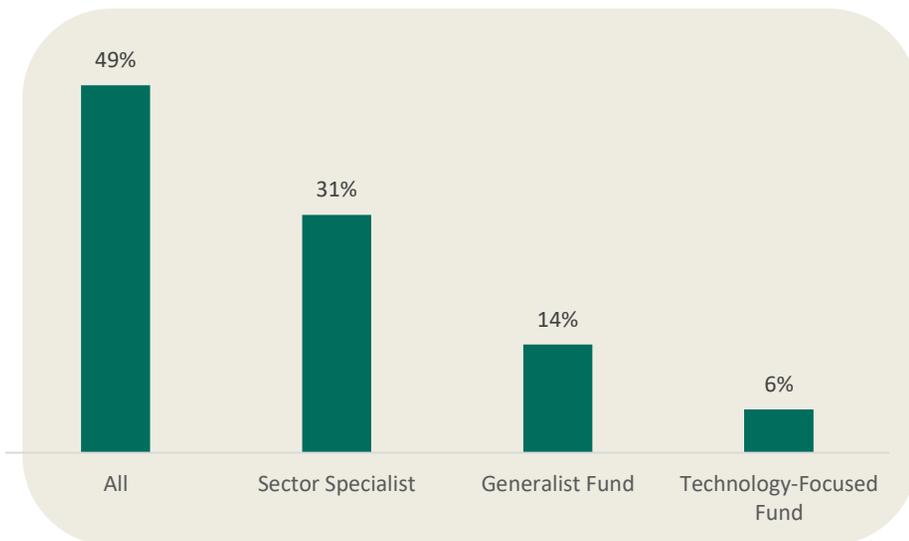




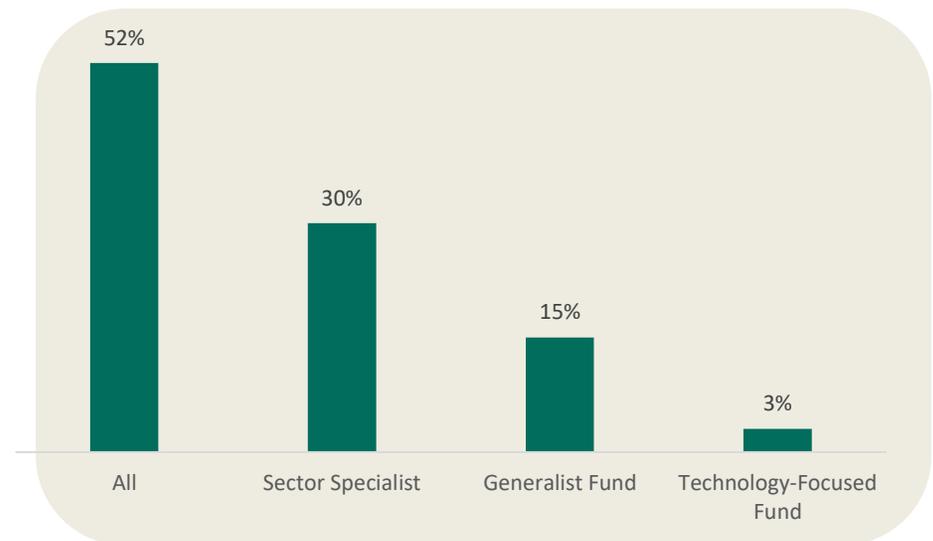
TECHNOLOGY IN 2021

How are you thinking about technology in your portfolio for 2021? Will you be increasing exposure? If yes, would it be through a generalist fund, sector specialist or a technology-focused fund?

Currently invested in technology



Plan to increase technology exposure



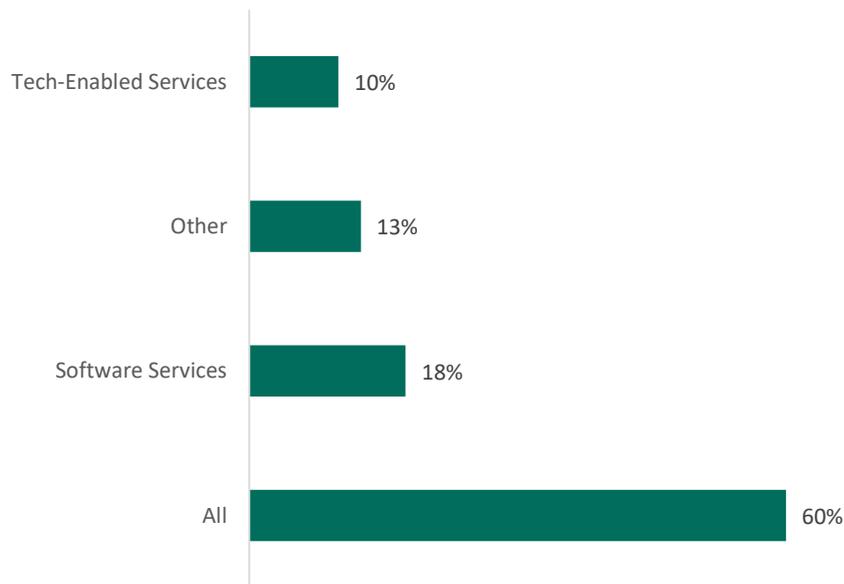
Select comments from LPs:

- Some LPs are not looking to add technology specifically, but also realize that many strategies have an increasing technology component
- Have a high hurdle for adding a new manager. This hurdle is even higher when considering tech exposure
- We like where we are on tech – provides us good exposure to growth equity. We added 3 managers in the back half of the year
- We have a ton of exposure to technology and will most likely add some additional exposure. We are seeing technology touching all areas of investing. If you are a manager and you aren't looking at each sector with the technology lens you most likely aren't going to find high growth investments. Even our industrial managers are seeing how technology is being disruptive within what has historically been a slow-moving sector
- Currently invested in technology and plan to continue investing in this space. We have a demand for tech and growth from clients with the stipulation that it's "down the middle of the fairway" and not first-time managers



TECHNOLOGY SECTORS

Are there certain technology sectors and sub-sectors that are of specific interest? Which of these sectors are you most interested?



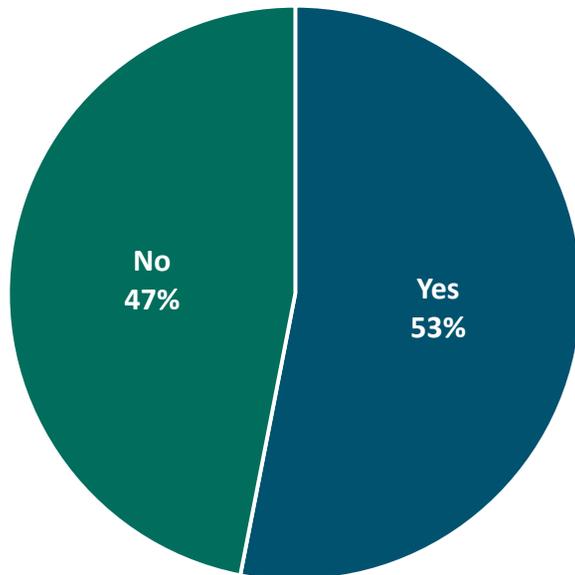
Most LPs are considering all areas of technology, but place more emphasis on the caliber of the GP

- Open to all technology subsectors, but really depends on strength of manager
- Not looking for technology specifically but will look at everything with a technology component as part of a broader strategy
- For us, we must have conviction in a manager vs. filling a bucket. We are really looking for the best athlete
- We have done tech-enabled service investments. However, we are really more opportunistic



CO-INVESTMENT

Would co-investment deal flow help towards a primary commitment?



Half the LPs interviewed have co-investment buckets or allocations

- Co-investment helps, but was only considered after we made a favorable assessment and approved the GP
- In recent years the move to 40% of the PE allocation each year has been shifted towards co-investment alongside GPs. That has taken a bit of a backseat during corona as we have exposure to about 1,400 underlying portfolio companies through primary and coinvest relationships, but expect that will resume after this pandemic
- We started a coinvest bucket of capital to deploy \$5-10 million per investment alongside our GPs, typically on the buyout side

About half the LPs interviewed felt co-investment was a “nice to have” but not a “must have”

- Open to co-investments and might be a plus for a GP when being compared to others, but won't tip the scales
- This wouldn't drive our decision but it's a nice plus if its available
- Not a priority at this point but intend to have co-invest capabilities in the next 3 years



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