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Overcommunicate, Plan Ahead: How Alts Firms Are Shifting Gears

By Tom Stabile
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How will private alts fund firms react if the coronavirus-stopped economy roars back to life once public officials lift restrictions on businesses, workers, and consumers? That's one question – among many – that managers, investors, consultants, and others are working on now in the first weeks of the crisis.

Private fund market professionals have been adjusting on the fly as the coronavirus has greatly disrupted the normal course of consumer and commercial activity. Many of them have been developing new strategies to manage the crisis, using ideas such as overcommunicating with clients and partners; making only daily or weekly short-term plans; and mapping out moves to pivot quickly when a recovery comes.

Some industry professionals are expecting those strategies to evolve further in the coming weeks, with April and May remaining uncertain ground. That's the current outlook for the Association for Corporate Growth's New York chapter, which has had to postpone upcoming events for middle market private equity professionals, but still has its June meeting slate intact, says Vikash Magdani, executive director for the group.

"For now, we are looking at April and possibly May as somewhat off the cards, but by June we expect we should be back on our feet," he says.

Industry participants are generally expecting firms to get more comfortable as they gain experience managing the early weeks and months of the crisis, says David Acharya, partner at AGI Partners and president of the AGC New York chapter.

"We are still trying to figure out what is the bottom," he adds.

Fund managers and their lenders are discussing similar timeframes for when portfolio companies may face greater challenges, even as they monitor plans for federal and state aid packages, says Chris Taylor, CEO at Madison Capital Funding, an affiliate of New York Life Insurance Co. that finances private equity deals.

"Private equity firms and lenders are preparing to make sure their portfolios can ensure a social distancing case throughout the second quarter," he says.
In the interim, private fund market participants are settling on a few strategies to help weather the storm.

Overcommunicate

Private fund professionals have to remember that their partners, clients, and employees are all experiencing the same uncertainty during the crisis, and that a smart tactic is to keep key partners constantly informed of their current status and business operations outlook, Taylor says.

"Overcommunicating is a way of helping people stay focused," he says. "When you're trying to manage through a very rapidly changing environment, firms erring on the side of staying engaged can make an overwhelming situation more manageable."

Communicating often also means orienting teams toward maintaining relationships and minding business plans, rather than idling, says Steven Siesser, chair of the private equity law practice at Lowenstein Sandler.

"Nobody wants to slow down and not work," he adds. "Sitting at home doing nothing would create more anxiety."

Indeed, many firms are actively distributing information by writing memos to clients and employees, holding conference calls, and issuing formal status reports, including a detailed business update last week from Brookfield Asset Management and recent investor-only calls by Carlyle Group and Apollo Global Management.

Managers are paying special attention to communicating frequently with limited partners (LPs) about portfolio companies, deals, capital calls, and even fundraising plans, says Omoz Osayimwese, a partner and attorney at Dechert.

"Most of those relationships are based on a high degree of trust," he says. "Managers today know they have to talk to their LPs not only in the good times, but also the bad times."

Heightened communications also extend to maintaining contact with portfolio companies, Acharya says. "In the last few weeks I have exchanged more texts with them than a teenager," he says.

Such efforts even entail reaching out to cold contacts, Acharya says, such as deals passed over a year ago.

"There's a lot that's on hold now, so it's a good time to go back and find out, what's going on with this deal now?" he says. "Maybe the risk attributes have changed and we can take another look. That's one way we're reconnecting."

Plan Week to Week, But Also Plan Ahead

Outlining longer-term strategies in a time of great uncertainty may not be reassuring to partners and employees, Taylor says. A better approach may be to present digestible chunks of available information, he says.

"It's hard to predict what is going to happen by April 15," he says. "It's better to focus on the day to day, week to week goals and expectations – what you're trying to accomplish. We know both the firms and the broader industry will come out of this, but we don't know the exact path."

But private fund professionals also should be planning for when the economy restarts, especially if the rebound is rapid, Magdani says. "We have to make sure we're going to come out gung ho and fast," he says.

That also means scouting possible new investment options, Taylor says. "Private equity firms and lenders that have a long-term view are looking at capital allocation," he says. "We may not be able to figure out valuation and risk today, but we do have the ability to be creative when things do start to open up again."

Some industries – or ways of doing business – may end up better positioned after the crisis, Taylor adds.

"It's hard to assess it now, because many people are hurting, and we have to support and help people and businesses sustain themselves today," he says. "But there will be changes that come out of this that we can't anticipate yet. This will alter the way business is done and the way people think."