

For the past 5 years, Hunt Partners has compiled an Asia PE compensation survey (separate surveys for Asia and India). Aside from the usual questions regarding compensation, we also use the survey as an opportunity to probe timely issues. For this year's survey (2010) we asked questions about fund raising plans. Looking back at the survey completed in 2009 we asked our GP participants about their **"expected time horizon from investment to exit"**.

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### **GP Expectations for investment periods**

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In 2009, out of the 12 growth capital PE firms that participated in the survey, 3 elected to bypass the question. Of the 9 that answered the question regarding expected length of investment, 3 replied "no expected change", 2 replied "slightly longer" and 4 replied "longer". One of the 3 who replied "no change" added a foot note indicating that "expected surprise opportunistic exits have lengthened" – so perhaps we are down to 2 "no changes" out of 9 replies and 7 that expected holding periods of investments to lengthen.

How has this expectation of longer holding periods for portfolio companies played out over the past year? As a search firm Hunt Partners does not monitor holding periods of investments, however, we do search work for portfolio companies of our clients. This part of our business experienced a pick-up over the past year, perhaps a testament to the expected longer holding periods of investments. The searches we have been mandated with during this time have included all "C" levels (CEO, COO, CFO) as well as business unit heads and finance managers.

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### **Strengthening Management of Portfolio Companies**

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The "pick-up" in this recruitment activity year-over-year has been noticeable for Hunt Partners and leverages from our non-financial practice teams (led by Jeff Stryker in Asia and Arjun Erry in India). It also falls in line with the expected response from PE firms regarding their portfolio companies – if they are going to hold onto their investments longer, PE firms should be prepared to work alongside and strengthen these companies for the long-term.

For minority investments, portfolio company searches typically need to be approved by other stakeholders as well as the PE firm that has invested in the entity. These stakeholders can be any combination of a board of directors, an entrepreneur, a family that has a substantial shareholding, or existing management. Candidates must garner the favour of both the PE firm at the investor level as well as other stakeholders. Attaining "dual approvals" is at times a daunting task.

For instance, PE firms by their nature want to strengthen management, often requiring a strong manager who is willing to make tough decisions that will disrupt a stable environment or lead a company out of its comfort zone. Management and stakeholders who have been with the company for a long period may buy into the new plans but when it comes to bringing in a personality who will help drive that change, there can be hesitation – the new personality may be too much to bear against what they perceive to be acceptable to company culture.

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### **Multiple "Buy-ins"**

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PE investors need to be sensitive to management and other stakeholders through this process. There needs to be a "buy in" of the concept as well as an agreement on the type of person, or persons, who will be recruited. To accomplish this, we counsel our PE clients that they should not only discuss this in detail with their portfolio company, they should also arrange for us as their recruit partner, to meet with current management or other stakeholders who will be part of the selection process. This way we can make sure there is no disconnect between the PE firm and the portfolio company.

Once we feel that there is a clear understanding of the role and the candidate selection process, the recruit process will work much more efficiently and expediently. This will also avoid potential conflicts should one party (say the PE firm) keenly endorse a candidate only to be blocked by management of the portfolio company (or other stakeholder).

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