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Side Letter: Goldman's institutional inclination

Goldman expects private wealth capital to decrease as a proportion of its alternatives fundraising. Plus: Connecticut is bullish on mid-market funds; and AI adoption is gaining ground. Here's today's brief, for our valued subscribers only.

PEI Staff - 17 January 2024

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Just happened

Goldman Sachs: going against the fundraising grain (Source: Getty)

Goldman's institutional inclination

Most private capital managers are scrambling to attract more private wealth to the asset class as an alternative to traditional sources of LP capital, and not least because it represents a mammoth opportunity – some say a multi-trillion-dollar one. **Goldman Sachs** appears to be going against the grain, at least from a relative point of view. Since 2019, 40 percent of the firm's fundraising for alternatives has come from private wealth channels. Speaking on the firm's full year earnings call yesterday, chief executive David Solomon said Goldman expects the percentage of capital raised from this investor base to decrease.

"People that allocate or enter a partnership with you and allocate $10 billion definitely have a different economic proposition than somebody that's giving you $50 million or $100 million," Solomon said. "As we continue to invest in broad institutional partnerships in the pension community, [and] the sovereign wealth community areas, where historically we had not raised a lot of alternative funding, that percentage of wealth funding will probably decrease."

Goldman surpassed its alternatives fundraising target one year ahead of schedule, raising $251 billion since 2019, ahead of its $225 billion target, the firm said yesterday. Private wealth accounted for $100 billion of this figure. Even at a decreased proportion, expect this channel to remain a meaningful source of capital for the bank.

Connecticut's conviction

Connecticut Retirement Plan and Trust is focusing its allocations on small and mid-market funds, our colleagues at *Buyouts* **report** (registration required). The $51.6 billion investor, which is the 30th largest public pension in the US, plans to allocate $1.7 billion to private equity this year. Of that, up to $1 billion will be invested across five smaller and mid-market funds. The system additionally plans on making up to three growth equity commitments with a target between $300 million and $450 million.

Many public systems, as they have grown their PE operations, build out the capability to track and monitor mid-market PE funds. Large systems with smaller teams are generally limited to cutting large cheques to well-established, large managers.

"Many of these [small and mid-sized] companies are being introduced for the first time to institutional capital," Michael Mufson, managing director and chief executive of Philadelphia-based investment bank Mufson Howe Hunter, told *Buyouts*. "It's a classic strategy for private equity sponsors to invest in those companies, make improvements and improve profitability based on performance enhancements instead of financial engineering."

They did the math

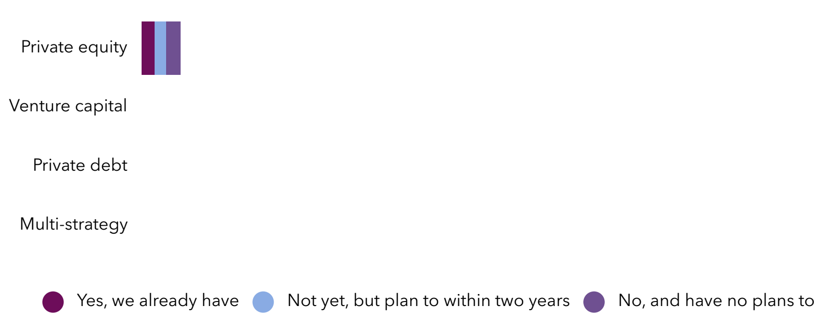
AI adoption

Nearly one quarter of private capital managers are already investing in AI and machine learning to enhance their operations, and 42 percent are planning to do so within two years. That's according to a 2024 outlook survey from Allvue Systems that our colleagues at *Private Funds CFO* **were able to obtain early** (registration required). Of PE managers, specifically, 33 percent have already deployed the technology, while another 30 percent are planning to do so in the next few years, according to the **survey**.

Of that group, dealmaking, portfolio monitoring and data collection emerged as the top use cases. The tech is not as often applied by PE managers to fundraising and accounting, according to the report.

Over the years, firms including **EQT** and **TA Associates** have harnessed data and analytics for better deal sourcing, transaction evaluation and portfolio management. Some, like Hong Kong-based **VMS Group**, are even **launching funds** dedicated to this nascent technology.

Has your firm deployed AI or machine learning to assist in your fund operations?



Source: Allvue Systems

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Essentials

Tough times ahead for leveraged finance

It's a deteriorating outlook for leveraged finance in both the US and Europe, according to Fitch Ratings. The rating agency said **in a report** that default rates climbed last year and will continue to do so this year in the face of high interest cost burdens and macroeconomic pressures. High interest expenses, it said, would weigh heavily on highly leveraged companies that may already be operationally challenged, generating low or negative free cashflow and rendering them unable to organically grow EBITDA to offset interest rate increases. The rise in defaults, Fitch said, is likely to be driven by sector-specific issues in healthcare and pharmaceuticals, telecoms and technology.

Fitch expects default rates for leveraged loans to rise to 4 percent in 2024 from 3 percent last year, as highly leveraged credits remain vulnerable to approaching maturities. Of the 11 percent of European leveraged loans maturing in 2025, 97 percent are rated in the 'B' category or below.

SVB's VC proposal

Silicon Valley Bank's former parent SVB Financial and a group of its senior bondholders have agreed on a proposal to resolve SVBF's bankruptcy in a way that transfers the venture capital business to certain creditors. The tentative plan involves creating a new entity that would hold the VC arm, SVB Capital, as well as billions in net operating losses that could be carried forward for tax purposes, our colleagues at *Private Debt Investor* **report** (registration required).

Reuters estimates that the coalition backing this deal holds about 48 percent of SVBF's most senior debt. However, it seems likely such a plan would be met with opposition. Creditors not among the backers may demand that the VC business be sold at auction, so that its value accrues to the estate as a whole, rather than to the specific creditors who are parts of the agreement.

Advocates of the plan maintain that the company did explore such a sale and received what it regards as unacceptably low bids. Its analysts say the VC operation is worth $572 million; the best bid was $55 million below that.

Today's letter was prepared by ***Alex Lynn*** *with* ***Adam Le***, ***Carmela Mendoza***, ***Madeleine Farman***, ***Hannah Zhang*** *and* ***Katrina Lau***.

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