Diversity is more than hitting quotas – Women in Private Markets Summit

The Women in Private Markets Summit is the world's leading diversity event focused on alternatives. In early December, 600 attendees from 50 countries attended the two-day event in London, for what was an inspiring and informative meet. Aztec's Nicola Heffernan and Melanie Herbert were there and have outlined their key takeaways below.

Diversity isn't simply about hitting "quotas"

One of the hot topics at the summit was Diversity, Equity & Inclusion (DE&I). Whilst all metrics tell us that diversity equals success, the absence of discrimination does not equal inclusion. Diversity is not simply about hitting "quotas" – people must also feel included for that success to be realised in the long term.

The scope of D&I is constantly evolving and one of the more recently-identified elements is equity, which looks to ensure fair treatment, access and opportunity for all, moving away from the traditional diversity point into a modern approach which goes beyond gender.

Whilst it's recognised that DE&I brings different perspectives to the table and can strengthen decision-making, the positive impact on returns is another factor which rings true. Increasingly, institutional investors in the PE world are demanding that GPs provide and improve upon diversity metrics for their firms and portfolios, as they look to raise new capital.

Organisations need to evolve their culture to ensure DE&I values are not just etched in corporate statements but are actively lived and breathed by everyone through their day-to-day practices, visible to all those inside – and outside – the organisation. Companies that do so are likely to create a more engaged and inclusive environment for the entire company.

ESG v Impact Investing – what's the difference?

For all the talk of ESG and impact investing, perhaps the most pertinent takeaway from conversations was that the two are quite different. While ESG analysis can be integrated alongside traditional investment analysis, impact investing is a thematic approach where investments need to produce a tangible social good, such as affordable housing, renewable energy or access to education and healthcare. Regulators are now taking notice of how firms are evidencing impact strategies, and are no longer seen simply as a marketing ploy.

Whilst there is some discussion around the difficulty of measuring impact, the general sentiment is that robust data strategies are key to meeting the growing demand for impact and ESG reporting, a topic we discussed in a recent podcast – **Click here to listen now.**

Impact measurement methodology should also be made clear in fund documents, whilst also recognising that there should be evolving 'language' over time between funds, due to regulatory and investor pressures, to ensure comparison and benchmarking across funds can be completed. Currently, this comparison cannot be completed in a consistent way.

From an investor's perspective, sustainable investing is a growing trend; future generations are more likely to look for ethical investment options, while women are considered more socially aware than men.

Digitalisation in Private Markets

The digital landscape is ever evolving, and private markets are keen to capture the operational efficiencies that digitalisation can offer. There is a big difference, however, between going electronic and actual digitalisation, and firms should consider carefully what are they are trying to achieve, when planning their own digital transformation.

It's impossible to lump all private markets into one solution, so organisations will need to be creative and realise that everyone has a role to play. Central to an organisation's digital transformation is the need for a mindset shift and using new tools today, to harness new ways of working tomorrow. That also requires a cultural shift, with everyone within an organisation comfortable in taking those next steps. Everyone needs to be taken on the journey together, for a digital transformation to truly work.

Additionally, a common view was that **tokenisation** and **blockchain** are merely forms of unitisation to access more products – this access is already available (via feeder funds for example) so this is simply a new way of doing things. Tokenisation is still in its infancy in the private markets industry but its benefits including liquidity, democratisation and transparency are clear for all to see. Key to tokenisation's success in private markets is ensuring the regulatory landscape around these virtual assets is sound.

Fundraising, Secondaries and Co-investments

The overarching consensus at the summit was that fundraising is challenging in the current economic climate.

There is widespread over-exposure in private markets due to the decline in public markets. However, whilst investors don't anticipate a market freeze as such, they do anticipate slower fundraising, with LP's hoping to see funds being raised at target, with longer deployment cycles. Where there is capital to deploy, patience is key. It's likely that, as we see a rise in the cost of capital due to the current inflationary environment as well as the continued reduction in the availability of leverage, redemption pressures may create opportunity for those with sufficient dry powder that doesn't require leverage, to snap up investments at attractive prices – a picture we haven't seen for some time.

The secondary market is set to continue its growth trajectory as investors look for increased flexibility and shorter liquidity cycles. This trend is likely to intensify over the next couple of years as investors take a more active approach in managing their portfolios in response to new economic realities. In a similar fashion, co-investments will continue to peak managers' interest due to their flexible nature, higher return potential and the ability to hand pick deals.

Evolving Investor Relations Role

LP/GP relationships are becoming more and more important with LP's wanting greater line of sight when it comes to real time data. The nature of long-term assets and open-ended funds means the type of data, how and when it is accessed, and the insights derived from it, will need to adapt and change over time to meet the LPs ever-growing data demands. This was covered in another new podcast we've recently produced, Your LP Data Demands Decoded, which you can **listen to here**.