Invest Europe CFO Forum – our key takeaways

We've recently returned from Invest Europe's annual CFO Forum – and it didn't disappoint. Location aside (it was in Nice!), it was a cracking couple of days, with many of the industry's leading names having their say on the key opportunities and challenges facing private markets right now.

Our very own **Hana Prochaska** and **Stephanie Atnas** were there, and report back in this blog.

What do recent market events mean for CFOs?

2022 saw disruption in markets with a peak in inflation, an increase in costs, and the on-going banking crisis leading to growing uncertainty across the economy. But this isn't the first time we've seen market turmoil – you only have to look back to the recent COVID pandemic to see global events shaking markets to their core.

And as we know from COVID and other key market downturns, crises often lead to opportunity. And the general sentiment at the CFO Forum was that private market investors are being proactive, considering their long-term objectives and looking for commercial opportunities despite the challenges they currently face. Enhancing tech is a popular consideration for many managers right now, with firms looking to expand their tech and adopt automation to help them improve integration and reduce manual processes.

The tech revolution of private markets

Hana took to the stage to moderate a session on the adoption of technology in the alternatives market. The session explored how tech is creating value, through implementation, data, automation and AI.

Innovation in technology is often thought of as being ahead of us, something that's down the road, on a roadmap for the future. Businesses talk about implementation cycles for new tech as something which can typically take between 3-5 years to introduce. But when we're talking about tech such as generative AI, that's here now. So, it's critical that we all understand the technology that is coming – and is here – and embrace it.

Watch this space as we look to dive deeper into this topic in our upcoming podcast: **Hype or Revolution: How Generative AI could impact Private Markets.**

Key LPA terms and trends driving LP/GP dynamic

The latest data trends in LPA terms including limits in the use of bridging facilities and borrowing, distribution waterfalls, investment periods and extensions were also discussed at the forum. As the private markets industry continues to evolve, it's likely that new trends will emerge, with several of the key LPA terms and trends driving the LP/GP dynamic, as follows:

- **The rise of institutional investors**: pension funds and insurance companies are becoming increasingly important investors in private funds. These investors have a long-term investment horizon and are looking for good return potential
- **The growth of the secondaries market**: the secondaries market provides LPs with an easier exit strategy, while GPs can access additional capital to invest in new funds
- **The increasing use of technology:** tech is improving the efficiency of private funds when it comes to managing investments, tracking performance, and communicating with LPs. Automation and Generative AI tools are aiding this technological revolution.

The LP/GP dynamic is complex and constantly evolving. By understanding the key LPA terms and trends, LPs are making more informed investment decisions to protect their interests.

Valuations – are they inflated?

Are private assets true to their valuations right now, or are prices overly inflated? Valuing private assets is a complex and challenging process, with multiple factors affecting considerations. Generalised processes including stage developments, growth potential, competitive landscape and market conditions are commonly seen within valuations. Venture Capital fund managers are commonly utilising a set of predetermined multiples to value an investment company. These multiples are based on the average valuations of similar companies that have recently received venture capital funding. When it comes to private equity funds, LPs commonly compare assets to similar companies which have been recently valued.

So, what considerations should be taken into account when assessing the valuation of an asset? And do valuations need to shift to fit today's macroeconomic environment?

Ultimately, the answer is yes, they do. The current environment is characterised by rising interest rates, inflation, and economic uncertainty. These factors are all putting downward pressure on valuations, however, reflecting the underlying economic conditions at present. Check out our insights video from Stephanie, as she discusses her key valuation takeaways from the CFO Forum.

ESG – how can CFOs support?

ESG continues to dominate the agenda, with CFOs needing to play a critical role within their organisations in highlighting the importance of ESG when it comes to financial performance and risk management. CFOs are responsible for ensuring their company's ESG performance is accurately and transparently reported to investors and other stakeholders. This could include developing and implementing an ESG reporting framework, collecting and analysing ESG data, and communicating ESG performance to stakeholders. Meanwhile, investors are increasingly seeking sustainable funds to invest in.

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.

The market is receiving clear direction from regulators and investors to ensure comparison and benchmarking across funds can be completed. Currently, this comparison is not being completed in a consistent way, due to the different regulatory requirements when it comes to ESG reporting in different jurisdictions.

Risk management – at fund and portfolio level

Being able to distinguish between fund and portfolio risks will help managers when scoping out informed investment decisions. Investors should diversify their portfolios to reduce exposure to fund level risks, whilst monitoring their portfolios for portfolio level risks and take steps in mitigation. These risks include:

- **Diversification**: spreading investments across different asset classes,

industries, and regions, reducing the risk by limiting the exposure to any one asset class, industry, or region
- **Hedging**: reducing risk by taking an offsetting position to an existing asset
- **Risk monitoring**: regularly reviewing the risks that could impact a fund, ensuring the fund manager is aware of any new risks, and that the existing risk management strategies are still effective.

By using these and other risk management techniques, fund managers can help to protect investors' interests and ensure that the fund achieves its investment objectives.

If you have any other thoughts or questions about what we've discussed above, please contact Hana Prochaska or Stephanie Atnas directly.