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Private Equity International: LPs take a bolder approach to new GP relationships

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LPs are planning to allocate more capital to emerging managers and widen their GP relationship network.

After a torrid two-and-a-half years for private equity fundraising, there is growing evidence that investors are looking to redirect money towards new GP relationships. Even emerging or 'first-time' managers are on the table again for some LPs.
Private Equity International's LP Perspectives 2025 Study shows that 57 percent of LPs are hoping to have a greater number of PE manager relationships over the coming year - the highest number since 2019.

Meanwhile, around half of LP respondents said they would consider backing emerging PE managers in the next 12 months.

The fundraising downturn had been particularly hard on smaller and less established PE firms without a track record of successful exits or returns.

"It feels like LPs have capital to allocate again and that they are allocating to new relationships," says Andy Lund, global co-head of private funds at investment bank Houlihan Lokey. "We see that through the various mandates on our books. So, I'm optimistic. It's not a bull market, but there are certainly green shoots."

The Perspectives data suggests "LPs are churning legacy GP relationships into new ones", according to Lund, who adds: "We're definitely seeing greater appetite for bona fide emerging managers."

Indeed, Maryland State Retirement and Pension System recently outlined plans to invest a further $250 million in emerging PE managers over the next five years.
The firm's board said during a meeting in mid-September that the proposed mandate would form part of a more structured approach to improve the $68 billion system's returns from such strategies.

However, many emerging GPs may not yet be benefiting from LPs' greater openness to new relationships, says Andrew Brown, head of private equity research at investment consultancy WTW. Large LPs' focus when issuing new mandates now is more on existing middle managers rather than first-time funds, he adds.

Similarly, Goldman Sachs' $400 billion external investing group (XIG) - which helps clients find and access third-party funds - has always been active in backing emerging managers, says Amy Jupe, XIG's global co-head of private equity primaries.
But the bar remains high for new GPs, Jupe adds, as LPs now have greater access to more high-quality, established managers than ever.

There are, nonetheless, good reasons why some LPs are looking for new bets, says Lund. As investors are still not seeing much in the way of distributions to paid-in capital, LPs are unlocking capital by making fewer re-ups, he explains. For the past 24 months, LPs have been inundated with re-up requests from GPs, but are now scrutinising funds' performance more closely than ever, Lund adds.

Similarly, Lars Bjoergerd, managing director of UK placement agent MCAM Group, says LPs' re-up ratio had normalised over the past six to 12 months, falling from what had been a historic high.

Lund believes that these developments may have a knock-on effect on managers.
"We're starting to get more and more enquiries from people seeking to set up their own firms, recognising these green shoots may be real."

Previously successful GPs may now be struggling to raise capital thanks to declining performance, which could lead to junior partners who drove the value of the initial portfolio becoming frustrated, Lund says. "That means there is a ripe cohort of professionals that are going to be the next generation."

But they will need to offer a genuinely differentiated investment strategy.
Lund cites an example of a UK-based emerging manager client with an operator-centric model that recently hit its fundraising target within 12 months.

"That wouldn't have happened last year," Lund says. "These days, even though there's more capital around, on every level the story just has to stack up."