

2023 INVESTMENT FUNDS OUTLOOK

LP and GP Relations in Flux Amid Economic Volatility

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LP And GP Relations In Flux Amid Economic Volatility, Barnes & Thornburg's Investment Funds Outlook Report Shows

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Law firm's inaugural survey reveals changing LP and GP expectations, succession planning challenges, and opportunities in cryptocurrency, life sciences, and real estate private equity

NEW YORK – Barnes & Thornburg today released the law firm's inaugural 2023 Investment Funds Outlook Report, which draws on insights from limited partners (LPs), general partners (GPs), and service providers across the private funds landscape.

The report couldn't arrive at a more critical time. "In the wake of recent bank failures and double-digit decreases in asset values across most investment classes in 2022, the private funds sector will be rife with new tensions, dynamics, challenges, and opportunities," said Scott Beal, co-chair of Barnes & Thornburg's Private Funds and Asset Management Group.

The report covers the evolving relationship between LPs and GPs as the latter compete for investor capital and delves into the private funds outlook for several key sectors, including cryptocurrencies, life sciences, and real estate private equity (PE).

"GPs, especially less experienced ones, will have to find innovative ways to attract LP dollars and address concerns about ESG and succession planning," said Kerry Potter McCormick, partner in Barnes & Thornburg's Private Funds and Asset Management Group. "At the same time, stakeholders on all sides of the deal table will need to make sure they're getting the right risk-reward balance while preparing to adapt to inevitable

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shifts in the markets.”

The full report can be found [here](#). Some of the key findings include:

- **LPs have more leverage – and fund terms are changing as a result.** Investors experiencing the “denominator effect” are increasingly particular about where they direct their money, as slow exits, declining valuations, and liquidity restrictions have impacted LP cash flow. It’s no surprise, then, that 75% of respondents expect changes in fund terms that will benefit LPs, such as investment period extensions, changes in GP commitments, no-fault divorce clauses, and more.
- **Succession planning is highly valued by LPs, yet only 41% of GPs have such plans in place.** This issue will only take on more importance amid persistent economic uncertainty and continued pressure from LPs to ensure key portfolio managers and other team members safeguard long-term continuity in investment decisions and protect LP capital.
- **Cryptocurrency is a risk many are still willing to take.** Most respondents – particularly private equity and credit managers – say the current state of the cryptocurrency market has significantly impacted their company in a negative way. Yet even as regulatory scrutiny picks up, the majority are still considering or actively deploying capital in the space in 2023.
- **Life sciences has plenty more investment potential.** Though investment in life sciences has cooled slightly, more than half of respondents focused on the space see gene therapy, precision medicine, artificial intelligence/machine learning, and cell therapy as key opportunities.
- **Real estate PE funds draw interest despite softening economy.** Though such funds may experience difficulties when compared to pre-2022 levels – due, in part, to the shift to work-from-home and real estate capitalization rates – opportunities abound. For instance, roughly the same number of respondents call rising interest rates an opportunity as those who view it as a challenge.

“It’s a truism that when you have changing markets, you have more interesting investments,” said Jahan Sharifi, co-chair of Barnes & Thornburg’s Private Funds and Asset Management Group. “As our current economic uncertainty persists, the more sophisticated, thoughtful, and analytical funds have an opportunity to get out in front. Our hope is that the insights gathered in this report can help them do just that.”

Barnes & Thornburg surveyed 125 limited partners, sponsors, and service providers in February 2023 with the help of a third-party B2B panel provider, Dynata. Survey respondents included LPs, GPs, and service providers involved with private equity firms, hedge funds, credit institutions, and venture capital firms focused on a range of strategies and industries.

To learn more, download the full Barnes & Thornburg 2023 Investment

Funds Outlook Report [here](#).

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