Choosing Your GP Stakes Partner

Questions to ask before and during the process

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Disclaimer: The following is not an exhaustive list of items to consider when selecting a GP stakes partner. Nothing in this analysis is legal advice.

Introduction

GP stakes deal and fundraising activity has continued to surge in recent years. There are currently dozens of deals underway in different stages across the size spectrum, and 2021 appears to be on pace to set records for GP stakes deal activity. Over $20 billion is being raised across nearly a dozen GP stakes funds, and strategic buyers—from insurance companies to sovereign wealth funds—are looking to do more direct deals. All this means more GPs than ever are now receiving calls or thinking about selling an equity stake. Many firms are intrigued but do not know where to start or which types of buyers may be most suitable.

The founders and executives at private capital firms regularly buy and sell businesses with efficiency and indifference. However, those founders and executives often experience an emotional and human element when they decide to sell a stake in their firm that other deals often lack. Selling a stake in their private capital firm is also typically in areas well outside the founders' wheelhouse, meaning there is information asymmetry favoring the buyers who do these deals regularly. GPs need to ask themselves some basic questions and seek expert advice, likely from a banker that has run these processes before and an attorney well-versed in these types of deals.

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Initial questions

Am I large enough to sell a stake in my firm?

While there are no minimum or maximum sizes required to sell a stake, there are some general guidelines around the size required. Most GP stakes buyers like to see a built-out deal team that is no longer dependent on a single dealmaker. This may include a team with several associates and one or two partner-level dealmakers, beyond the founder. Investors also typically prefer to see GPs with at least two to three funds raised, each one larger than the last. Finally, two common rules may help potential sellers gauge the interest of institutional buyers. First, many GP stakes investors want to see top-line fee-related earnings (FRE) of at least $5 million. Second, using fund size as a measurement, middle-market-focused institutional buyers want to see the latest fund size equal $500 million or larger. One exception here may be if the firm has multiple product lines, each with $250 million fund sizes, for example. There are a select few institutional buyers that will buy into firms with smaller fund sizes. Even for middle-market-focused buyers and larger, there have been several exceptions to these criteria with deals involving firms that were smaller or younger in some way. However, most deals are with firms that meet these criteria. Additionally, many middle-market firms may want to see at least $10 million of FRE or funds sized $750 million or more, and GP stakes buyers at the top end may require $20 million or more in FRE and several billion-dollar-plus funds.

Smaller GPs have two options. With an influx of capital coming to the GP stakes space and smaller firms understanding the value an external partner may bring, many smaller or earlier stage firms are now choosing to sell stakes. These smaller GPs may be seeking expansionary capital, and be cash poor, making minority equity deals appealing. There are several institutional buyers that are willing to invest in firms with funds below the $500 million mark or with less than $5 million in fee-related earnings. This group of institutional buyers also bring healthy strategic value and can help propel smaller GPs to the next level. These smaller GPs may consider an accelerator deal to bridge the gap. These deals often come with significant LP capital and can help GPs raise larger funds and achieve the scale to sell a permanent stake. These accelerator deals typically involve sharing in the firm economics for a few funds—though they may last into perpetuity in some cases—and come with a strategic partner. In some cases, GP stakes buyers are doing more accelerator, and even seeding, deals and using this cohort of firms as prospects for their stakes business at a later date.

Do I have a succession plan in place? How institutionalized is the business?

Getting your house in order is table stakes for a GP stakes deal. Investors are often purchasing a perpetual equity stake in your business and will expect to see some diversification away from a one-person leadership structure toward one that has a clear chain of command and redundancies in place. Many GP stakes firms may help institutionalize the GPs in which they invest, but your back office needs to be somewhat built out. There should likely be distinct roles for the key persons in the organization and sufficient overlap so that the company can continue operating if one or more key persons left the firm. This often means having several administrative and operating partners in addition to the investment team. Ensuring a firm's finance department is up to the task is also critical. Outside investors will demand more reporting than was often done before the deal and on a faster timetable. This can cause some strain at first and is something that catches nearly every seller off guard.

Many of the businesses that sell stakes, especially in the middle market, are still somewhat dependent on their founder(s) and are not expected to have moved past founder dependence before selling a stake. Investors just want to see a thoughtfully laid out plan on transferring ownership and responsibilities to the next generation. According to Joseph Schwartz, an investment funds and M&A attorney at Sidley Austin who has drafted and advised on many GP stakes legal documents, many investors also expect to see robust dispute—or deadlock—resolution mechanics between the founding partners.[1] This ensures that an otherwise irreconcilable dispute among the founders can be addressed and mitigated quickly without causing material and lasting economic and reputational damage to the firm.

How will my LPs react?

Many LPs have come around to GPs selling stakes in the past decade, but some LPs still view these transactions negatively. And although some LPs are skeptical around deals where a partner is cashing out rather than using the capital for growth, there is a general acknowledgement that GP stakes deals are often good for the GP's business. Outside investors validate the firm's investment thesis and can help further institutionalize the business. LPs tend to react more favorably when GP stakes deals bring in a partner with significant value-add, such as in fundraising or procurement. This can strengthen the GP's business—a benefit if the LP wants to allocate to future funds.

Despite a broad shift in LP perception of GP stakes deals, some LPs still refuse to invest with firms that sell a stake to an outside entity. In these instances, GPs looking to sell stakes need to weigh the potential loss of one or two LPs against the potential benefit of a GP stakes deal, which often come with robust fundraising support. Many GPs choose to proceed with selling a minority stake even when LPs resist, though every circumstance is unique.

How will the firm's next generation partners react?

This can be one of the more difficult pieces to navigate in a GP stakes deal. Every deal presents unique circumstances, and everyone throughout the firm will have different reactions to a GP stakes deal. In larger deals, where check sizes are $150 million or higher, a founding partner often cashes out some of or all their equity stake in the firm. In these cases, much of the firm's future value will be derived from the next generation partners, so it is vital to understand their outlook and align interests for all parties involved. In some instances, the next generation is unenthusiastic about the thought of selling carry to an outside investor. The next generation may feel like the deal hamstrings their ability to be awarded or "buy in" to those carry points in the future. However, larger fund sizes may provide enough carry to satisfy these individuals. Later in this note, we address the deal structuring around what can be done if or when the next generation wants to buy back these stakes.

1: Joseph Schwartz, phone interview by Wylie Fernyhough, February 8, 2021.

When a middle-market or smaller firm sells a stake, less of the value is predicated on the next generation partners. The next generation often represents a more junior party in these deals, and the current founders are expected to remain in the picture for a decade or more. Furthermore, since the firm is likely still well within its growth phase, the next generation may find the tangible benefits of bringing on a strategic partner more enticing. These outside buyers can often help take GPs to the next level and provide a significant value add, whether it is through environmental, social, and governance (ESG) investing; fundraising; or building out a middle or back office.

Who can best support you in selling a stake in your business?

The general advice around selling a GP stake, especially in the initial stages, is to seek outside counsel. Often, attorneys in the space—and there are a select few that have done numerous deals—will point GPs in the right direction and are crucial to hammering out favorable deal terms and rights. Some active law firms in the space include Sidley Austin, Kirkland & Ellis, and Seward & Kissel. Additionally, bankers can often assist sellers in getting the right valuation. This may involve running an auction process or just validating the deal multiple. Bankers that cover the space include Houlihan Lokey, Evercore, Berkshire, DC Advisory, PL Advisors, Oppenheimer, and Colchester.

What is the process like?

In most cases, an outside party interested in buying a stake will approach the target firm first. Buyers usually have target lists and may reach out to several dozen firms in a quarter. Several recent conversations with GPs that have been approached by buyers indicate that firms may be approached by two to four separate buyers before choosing to consider a sale. When the buyer approaches the seller, the selling firm most often retains an attorney and a banker (if it is large enough). In a growing number of cases, sellers will determine their desire to sell a stake and proactively seek out legal counsel and a banker. In these cases, the banker will reach out to a select group of potential buyers and run a process.

In terms of timing, deals usually take four to eight months after the buyer and seller first meet. However, this varies depending on how motivated the buyer and seller are. Some deals happen in as little as two months or less, while others take several years. In some cases, bankers run a full auction process for a firm before the seller walks away, only to sell a stake several years later.

Strategic versus financial

Why do you want to sell a stake in your business?

Possibly the first item GPs need to know is what they hope to gain by selling a stake in their business. And while there may be hundreds of follow-up questions, it often boils down to: Is a partner at the GP looking to cash out, or do the partners want to double down on investments in the firm (such as expanding the number of strategies, making a strategic acquisition, or raising the GP commitment to funds)? Many times, a deal contains a mixture of both because the buyers that will cash a partner out also bring strategic elements; however, each deal often aligns more with one of these prevailing narratives. Sellers seeking to cash out tend to manage sizable firms and will sell to a handful of specialized GP stakes buyers. Sellers seeking to double down on their firm and take it to the next level tend to be smaller and may sell to a dozen or so specialized GP stakes firms or 20+ sophisticated LPs.

Do you want an active or passive partner?

Financial buyers of stakes are typically fund-backed GP stakes firms and a few SWFs and family offices. These buyers have deep pockets, capable of writing equity checks of $100 million or more, and are usually content with purchasing some or all secondary equity—smaller deals are expected to be comprised of a higher proportion of primary equity. Although the purpose of these deals is financial gain, these buyers often bring a significant value-add component as well. If a GP is seeking a hands-off partner, this likely means going the strategic route. Buyers here may include large asset managers seeking to build out an exposure to alternatives or a large LP (for example, a family office, insurance company, or SWF) looking to align interests and commit heavily to future fundraises. These partnerships may include coinvestment rights and are meant to bind the asset owner more closely with the GP. Strategic buyers may have some hands-on abilities, but these deals are typically more passive than those with financial buyers.

As deals become more competitive, the line between financial buyers and strategic buyers has blurred. Most GP stakes buyers are willing to act as passive, hands-off owners. Yet, when the GP wants, several buyers will also roll up their sleeves and work with the GP as a hands-on partner. Joseph Lombardo, Head of Private Equity GP Advisory at Houlihan Lokey and a former GP stakes investor, first at the Carlyle Group and then at Stonyrock Partners, notes that, "Many buyers of GP stakes today also provide their underlying GPs with differentiated value-add services. Services vary by buyer and examples include: fundraising/capital formation services, product development assistance, procurement network access, portfolio company talent recruitment and, in limited circumstances, direct fee-paying LP commitments. These services are typically offered on an "opt-in" basis, allowing GPs to choose whether to take advantage of the buyer's capabilities. Over time, selling a 20% stake to the right strategic or quasi-strategic partner can significantly increase the value of the remaining 80%."[2] This illustrates that although determining whether you want to partner with an active or passive buyer is important, ensuring the GP stakes buyer's expertise aligns with your goals is critical.

What is the buyer's expertise?

Each buyer has its own areas of expertise and value proposition. One buyer may have expertise in the credit space while another may have a significant buyout operation. Some firms looking to sell vow to never "sell to their competitor"—for example, a credit firm selling a stake to a GP stakes investor that also runs a credit strategy within the broader organization. However, most buyers see this as an opportunity to expedite their growth plans by learning from an expert. For instance, any real estate or buyout firm that sells to Blackstone has access

2: Joseph Lombardo, phone interview by Wylie Fernyhough, February 8, 2021.

to the institutional knowledge that built the largest private real estate or buyout platform. Alternatively, mid-sized GPs may seek to do a deal with Bonaccord Capital Partners because that grants them access to Bonaccord's senior team, which has experience deploying growth capital into GPs at Swiss Re and Guggenheim and helping their partners raise capital. It also allows them to use Bonaccord's LP base, which may seek to commit additional capital to target GP's future funds.

Price and structure questions

Despite business owners wanting to get the most for their ownership stakes, many GP stakes deals and acquisitions do not go to the highest bidder. Much of this comes down to the strategic versus financial nature of the transaction and which potential partners have the most synergies, but price and deal structure remains critical.

Do other sellers always choose to sell to the highest bidder?

The short answer is no. Although auction processes at the top end of the market, where sellers may have $10 billion+ in AUM, will typically go to the highest bidder, results are different in the middle-market and smaller end. Sellers must weigh the strategic benefits of the buyer and structure of the transaction and look beyond the headline price. In some deals, GP stakes firms have been able to slightly underbid more passive investors, such as a family office, because their value-add outweighed the price discrepancy. In some recent middle-market auctions, a seller chose to partner with the second or even third highest bid from a GP stakes firm. In each deal, the seller is said to have valued the strategic benefits from the winning bidder more highly than the price difference.

Is it a whole or partial acquisition?

More than 90% of the time, a GP knows going into a sale process whether they will be selling a minority or majority stake, but there are exceptions. A source involved with the transaction says the recent transaction where Falcon—a credit shop with approximately $3.8 billion in AUM—was sold to Onex entertained several minority and majority offers. The inclusion of a majority stake premium may affect pricing differences between offers and should be considered. Generally, specialist GP stakes firms targeting middle-market or smaller GPs want to see the seller seeking only minority offers, showing that the founders are betting on themselves and looking to remain with the business for the foreseeable future.

If it is a partial acquisition, how much equity is being sold? Is it all common equity or are there preferred equity/debt/structured aspects?

Every deal structure can lead to unique alignment around growth and profitability. Common equity deals tend to align interests more closely around the bottom line. There may be more scrutiny on costs within the business to help free up cash for the stake buyer. Revenue shares, on the other hand, mean the buyer is likely to be most focused on growing the top line at all costs, without necessarily considering good versus bad growth. Preferred equity or debt deals mean the outside investor has much less incentive to help the GP grow. This is not an exhaustive list of deal structures. Furthermore, each structure must be considered, and the economic incentives thought through.

At the upper end, buyers typically acquire 6% to 12% equity stakes. For middle-market transactions, they typically target a 20% stake, since buyers of smaller firms usually need a larger proportion of equity to incentivize them. Some GPs in the middle market may want to sell less, say 12% to 15%, on their first deal to have more equity to sell several years later as their valuation rises. Vista Equity Partners went this route and reportedly sold 28% of its equity to Dyal over two transactions several years apart. Occasionally, deals in the middle market and smaller end of the market may include preferred equity, debt, and/or additional structuring, which lessens the buyer's ownership percentage, either at the outset or over time, while still allowing the buyer to hit their return targets. Specialist outside firms are often brought in to take on the debt or preferred equity investment. Highly bespoke deal structuring, which may involve putting up certain assets as collateral until the buyer hits return targets—can often be done in stakes deals to lessen the amount of equity sold and/or increase the amount of upfront consideration payable to the GP or its partners, while also reducing the downside risk to the buyer. Alternatively, GP stakes firms have a tight grip on the middle market and may pay a lower price or forego a deal entirely if the seller is offering less than 20% equity and the buyer does not feel properly incentivized.

Is the equity you are selling primary, secondary, or a mixture of both?

All else equal, GP stakes buyers like to see primary equity comprise a higher proportion of a stakes deal. Primary equity goes onto the balance sheet and is used to increase the GP commitment, expand strategy offerings, and/or other growth purposes. Secondary equity is often a founding partner cashing out, and buyers view this less favorably. As a general rule, as deal size rises, the proportion of secondary equity also tends to rise. Deals at the top end, where Dyal, Blackstone, and Petershill invest, often lean heavily toward secondary equity, while deals in the middle market and smaller are closer to 50/50 or skewed toward primary equity. However, recent trends in the middle market point to more deals with an increasing proportion of secondary equity.

Do you or the next generation plan on buying this stake back?

Although this does not need to be decided before signing the deal, considerations around buying back the equity stake later should be included in the deal structure if that is a goal. In certain cases, the founder or the firm's next generation of leaders have purchased GP stakes back from the initial buyers. Examples include Blackstone and Silver Lake. Sometimes these deals are done to provide a founder liquidity when the next generation is not wealthy enough to buy the shares, though they intend to buy them several years in the future. If this is the objective, certain deal terms and rights might be included at the outset. Specific transaction structures can include a forced buyback so the next generation can repurchase some or all of the shares at a predefined date—usually eight to 10 years later—so long as the investment hits certain milestones, noted Schwartz.[3] This could include a minimum multiple on

3: Joseph Schwartz, phone interview by Wylie Fernyhough, February 8, 2021.

invested capital (MOIC) on the investment, or a specific number of new funds launched as defined by the buyer. Less forceful structures could include offering the management team a right of first refusal. Furthermore, the deal may be structured to sell less equity up front or to have the equity stake sold step down after certain financial targets are achieved. Examples of how to achieve this consist of including a debt, preferred equity, or highly structured component to lower the amount of equity sold either at the outset or over time.

How many years does the management team have to stay together? Are there contingencies for collecting payment? What are the earnouts like over time?

Key persons are typically expected to remain at the target GP for at least five to seven years after a deal. This timing is typically the same across the size spectrum. If the deal is about helping a founder cash out, then they are likely not subject to these requirements or adhere to less stringent ones. In addition to standard employment agreements, some GP stakes buyers insist on altering the carry payout structure so that employees are incentivized to stay with the firm until the end of their contract.

There are usually fewer contingencies built in the deals at the larger end because the deals are often predicated on buying secondary capital from a founder. With deals targeting middle-market and smaller GPs, deals often include some contingencies for payouts—for example, raising a certain number of funds, usually two to three, or hitting certain revenue or performance targets after the deal has closed.

One mismatch that often leads to additional structuring in deals targeting middle-market or smaller GPs is that key persons are locked in for five to seven years, but payments typically are staged for a far shorter period. (Side note: GP stakes firms and strategic buyers often stage their payments into several rounds, lasting one to three years. All else equal, sellers would prefer fewer staged payments, and this is something to consider when comparing offers in a bake off). In these cases, part of the deal payment can be a portion of the partners' future GP commitments, effectively allowing the buyer to hold back some capital for longer, according to Schwartz.[4] These are effectively contingent payments that partners only get if they stick around and launch additional funds.

Earnouts, such as the types one may see in a standard buyout, are also seen in some deals targeting middle-market or smaller firms. Because these deals are more growth-oriented than deals targeting the largest firms, buyers may pay the seller more if certain milestones are hit. This may include certain run rates for FRE, a number of funds raised in a predefined timeframe, a certain MOIC on the investment by year 10, or more.

Are you selling "in-the-ground" carry and carry from existing funds or just carry from future funds? What price will buyers pay you for your accrued or expected carry?

One sticking point in GP stakes deals can be agreeing on valuations for "in-the-ground" funds and the associated carry the seller will earn. To properly

4: Joseph Schwartz, phone interview by Wylie Fernyhough, February 8, 2021.

underwrite a firm's current carry, a buyer needs to do due diligence on all existing investments, modeling them out. Some GP stakes firms seek to avoid this route and may instead apply a haircut to the fund's most recent net asset value (NAV). However, this presents an obstacle as GPs usually mark fund investments below the value the firm believes it can get on the market. This means the seller would take a double haircut. On top of this, GP stakes firms may apply a 15%+ discount rate to in the ground carry, which reduces the carry's value too much for some sellers. A source that advises on GP stakes deals says firms that take this hardline approach do not tend to win the deals at auction. Rather, the winners are the buyers that pay full price and agree with the target GP's net asset value at its present marks.

Several workarounds exist for when the GP stakes buyer and the selling firm cannot agree on carry valuations for in-the-ground funds. Some deals may exclude all carry for in-the-ground funds, meaning the buyer is only entitled to its pro rata share of management fees and the GP's balance sheet investments. This sometimes sees the buyer entitled to future carry from dry powder, or new investments, in current funds going forward. However, this complicates matters because it requires the seller to keep an additional set of books to track carry differently than how the fund's carry waterfall otherwise works (for example, a "European" versus "American" carry waterfall). One additional workaround entails excluding carry associated with one or more specific deals in an in-the-ground fund, while allowing the buyer to collect carry on all other in-the-ground investments. This typically happens when one investment achieves an abnormally high return. For example, the GP looking to sell a stake may have a portfolio company marked at 7x MOIC on the fund documents while really believing the company is worth 15x. This often happens when the GP values the company conservatively to under-promise and overdeliver to LPs. This also means the pro rata carry from this deal will take a significant haircut and, in these cases, the future carry associated with these outsized positions may be excluded from the deal while the buyer retains rights to the remainder of their pro rata carry distributions from the fund.

Additional considerations

Does the buyer have any other GP stakes relationships with firms with which you compete? Are any of the buyer's current GP stakes relationships planning on competing with your firm in the future?

Many of the most notable GP stakes buyers are serial acquirers. This can lead to tension within the portfolio were the buyer to hold stakes in multiple buyout or credit shops competing for the same deal flow. Questions around allocation of fundraising and deal flow resources come into question. However, this does not prevent deals from occurring, especially at the top end where deals can be more about price. For example, despite Owl Rock, Sixth Street, and Golub all competing with each other in specific areas, all three firms sold a stake to Dyal. Some buyers are adamant that they do not intend to hold stakes in competing firms under any circumstance. Other sponsor buyers seek to prevent competition within a single fund but may invest in multiple large credit managers that compete with one another across multiple funds.

If the seller is comfortable selling a stake to a firm with competing interests, the question of information flow must be considered. These deals typically come with board seats and observer rights. In these cases, a seller should discuss the types of information that will be shared with the buyer, what can be done with that information, and what sort of overlap there is on other GP boards. Sellers must be comfortable with the other relationships a GP stakes buyer has and the relationships they may have in the future. GPs should talk to prospective buyers to ensure they fully understand the trajectory of their current and future GP stakes portfolio.

Is the buyer using a fund or a balance sheet? If out of a fund, what is the fund length?

These deals are either done off a balance sheet or in a fund structure. This distinction is critical because it helps the seller understand how long the relationship may last. GP stakes funds come in myriad different sizes and with varied time horizons. Many smaller funds have 10-year to 15-year lifespans. This means these investors will likely look to sell the stakes later and that the relationship with that GP stakes buyer is finite. The largest funds (from Dyal, Petershill, and Blackstone) are set up as perpetual vehicles, meaning that while LPs may potentially cycle out as fund owners (for example, through a secondary transaction or strip sale), the relationship a firm has with the GP stakes buyer may be permanent. The middle market appears to be split between finite life vehicles and perpetual life funds. Similar to the perpetual funds, strategic deals off corporate balance sheets or out of family offices are set up as permanent relationships. None of this is to say the buyer cannot sell the equity stake to another buyer (certain terms and rights not withstanding), but it does mean the source of capital to acquire the stake is an important factor to consider.

Are you going to be able to properly incentivize your employees?

Firms tend to work best when carry is available to incentivize current dealmakers. Any time retiring founders or outside investors hold too large of a piece of the available carry, future funds may not perform as well because incentives are not properly aligned. Selling a stake and the pro rata share of carry is difficult for small firms that wish to remain small or for shrinking firms. However, most firms should be able to sell some portion of their carry without negative consequences. Larger fund sizes make this easier. For example, Blackstone effectively sold half of its carry to public shareholders, and the firm has retained employees because even half of the available carry on multibillion-dollar funds is compelling enough for many.

How will the buyer help with distribution? Does that match up with your product offering? If the buyer will not significantly help with distribution, will they help in other areas (such as strategic expansion or other business development)?

When selecting the buyer, GPs should consider the unique strategic offerings and how that stacks up against their current needs and objectives. Insurance companies make a natural pair for credit mangers because insurance companies invest a significant proportion of their float into credit, meaning a tie-up between the two could ease the fundraising burden for the seller. The value proposition of Azimut Alternative Capital Partners (AACP) is similar—the firm's

$70 billion+ in wealth management assets are highly attractive to mid-market GPs, especially in the credit sphere—though it comes with the added benefit of receiving access to firm CEO Jeffry Brown, the founder of Dyal's Business Services Platform. Alternatively, a SWF with a significant PE portfolio may be an attractive buyer for a PE firm because the SWF could theoretically allocate significant capital to the firm over time. In the case of GP stakes firms, they may seek to build a connection between their LPs and/or their other distribution and marketing channels and the GPs in which they invest. An example is Volunteer Park Capital (VPC); the firm's value add is derived from the fund's LPs as well. VPC not only seeks to bring strategic value to the GPs in which the firm buys stakes, such as opening its regulatory passport and distribution network to smaller firms seeking LPs on the other side of the Atlantic. The LPs in VPC's fund can also provide value to the firms with which VPC partners in the form of fundraising or access to their networks. If the assistance on the fundraising side does not line up, sellers might look at the buyer's operating partnership offerings. Some firms need help building out their back office, while others may seek assistance for developing an ESG strategy or expanding into real estate. Ensuring the buyer can help the seller achieve their specific goals is paramount.

Does the deal give the buyer preference over your coinvestment rights?

Coinvestments have become even more sought after and competitive in recent years as LPs become more sophisticated and many are looking to boost net returns. Some GPs use coinvestments to lure in LPs, meaning any GP stakes deal that may alter the priority for coinvestments may make fundraising more difficult. This angle is especially pertinent for strategic deals. On the other hand, some GP stakes firms are looking to gain preference in coinvestments and build coinvestment platforms with the firms in which they invest. These platforms could attract LP capital to the GP stakes funds and the funds of the GPs that sell stakes to this buyer.

Conclusion

GP stakes deals are highly bespoke, and the opacity of the industry and information asymmetries favor buyers over sellers. Our recommendation is to seek outside counsel at the onset to ensure business and personal affairs are in order before pursuing a stake sale. Once everything is ready, bankers are often worth their fees here and can ensure GPs receive the right price. But price is not everything. Sellers must also be cognizant of any potential buyer's value-add and understand how that corresponds to the seller's own growth objectives. Lastly, take the time to understand the minutiae up front because these deals have a plethora of unique details and fine points, and they are intended to last anywhere from a decade to perpetuity. We understand that this process can be extremely complex and often intimidating for those just beginning. Our analysts are happy to discuss additional details and provide further insight. Please contact us at pbinstitutionalresearch@pitchbook.com.