ACG® New York
Association for Corporate Growth
Where Private Capital Meets The World

TresVista

In November, we attended ACG New York's Middle Market Week Breakfast Program. Here are five of our top takeaways from the panel discussion on 'Midterm Elections' Impact on Dealmaking and Exits'

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5 THINGS YOU MISSED –

1 **Differentiating Middle Market Private Equity from Mega Funds:** One of the key objectives of the ACG Public Policy Committee is to educate members of the House and Senate on the contribution of middle market private equity funds to the overall economy. Private equity as an asset class has often been the scapegoat whenever the economy has performed poorly or at times of crisis. This is the primary reason why efforts are being made to differentiate between middle market funds and the so-called mega funds, so that regulatory bodies and legislation do not come down heavily on the wrong side. Efforts are being made to tie issues of the broad middle market (not just financial services) to issues identified by the Members of the House and Senate. For example, the middle market is producing 17% of the jobs in manufacturing as compared to 12% of all other segments. Empirical evidence shows that private equity-backed companies perform better (in terms of revenue growth and job creation) in all but 11 districts in United States as compared to companies with any other form of capital ownership. ACG is nurturing relationships of old and new members so that the voice of the middle market is heard.

2 **Increased Focus on Investor and Consumer Protection:** Recently, Congress renamed a few committees. The Capital Markets sub-committee is to be renamed as the Capital Markets & Investor Protection sub-committee. The Financial Institutions sub-committee is to be renamed as the Financial Institutions and Consumer Protection sub-committee. This points to how important the issue of investor protection has become for Congress. Moreover, the SEC Chair Jay Clayton, in numerous instances, re-iterated that the SEC is going to utilize most of its resources towards the protection of retail investors. Patrick Ottenhoff, of the Cypress Group, believes that a dark cloud is looming over the private equity asset class, but not necessarily the middle market segment, as regulators tighten the screws on the industry after an uptick in leveraged lending and notable bankruptcies, such as that of Toys R Us. The industry faces considerable risks from new legislation and regulations.

3 **Big Tech, Antitrust and Possibility of a Privacy Bill:** The likes of Amazon and Facebook face a huge backlash over data protection. This issue has both Democrats and Republicans united and there is a high possibility that a privacy bill will be introduced next year. Firms of all sizes face issues of cybersecurity and data protections, which will remain at the forefront in the coming year. Many provisions of the CFIUS bill passed last year with respect to cross-border M&A are applicable now, and there are new voices to tax M&A transactions above a certain threshold. This certainly does not affect the middle market segment but are worrisome trends for the industry overall.

4 **ILPA's Legislative Proposal:** The Institutional Limited Partners Association is calling for an introduction of a new Investment-Advisor Alignment Act for increased transparency. However, the industry believes that adequate measures are already in place to promote transparency and align interests of GPs and LPs. Some of ILPA's proposals include mandatory disclosure of all SEC communications to LPs; the prohibition of GPs from including hedge clauses in Limited Partner Agreements; and standardized fee and expense structures for all GPs. Maria Wolvin, Vice President and Senior Counsel for Public Policy at ACG Global, believes that there are sound policy arguments against each of these proposals. Mandating disclosure of all SEC communications is irrelevant as GPs already share these details at the request of LPs. Regarding the fee structure, Wolvin thinks that a one-size-fits-all approach would not work for smaller funds. There are many LPs in a fund, and each has different interests. Therefore, the GP needs to use professional judgement to act in the best interests of all.

5 **Major M&A Sectors and Growth Impediments:** According to Gretchen Perkins of Huron Capital, the tech and healthcare industries will continue to see robust M&A growth. She thinks that the overall market sentiment is positive, and tax reforms have played a role in that. The consumer food and beverage sector will also continue to see high valuations as they are recession-tested sectors with less cyclicality. However, she expects a downturn soon after a prolonged bull market. Ottenhoff thinks the trade war with China, geopolitical tension in the Middle East, the Russia-Ukraine conflict, or the dialogue with North Korea all have the potential to disrupt one of the longest bull market runs.