

# PRIVATE EQUITY BUSINESS ETHICS THROUGH EXPERIENCES AT ADB AND GLOBAL PE FIRM

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2015년 11월 24일

김무신 (서강 '87)

# Agenda

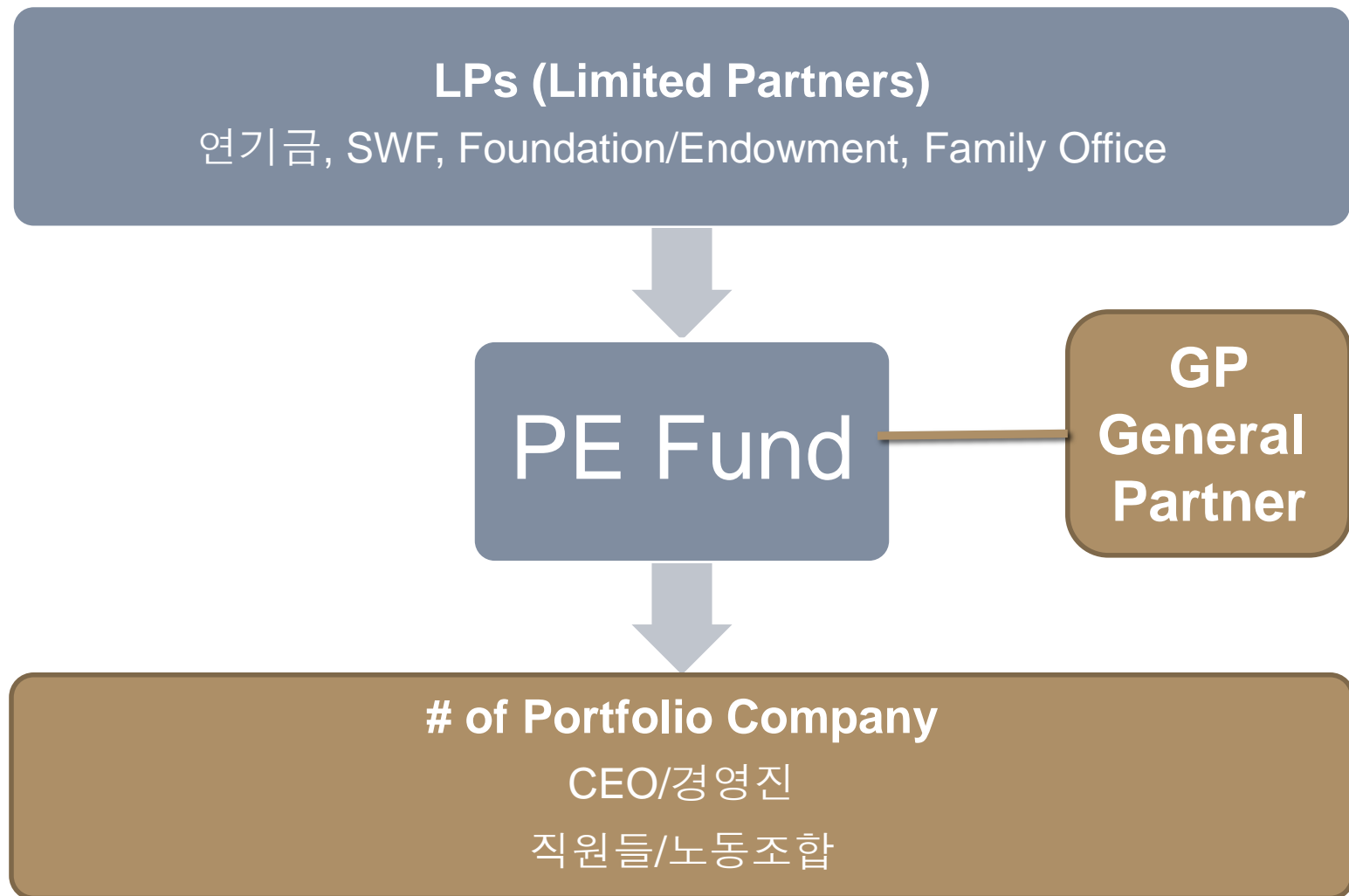
- Opening: Sustainability & Ethics
- Private Equity Ecosystem
- Agency Problem
- Personal Choices
- ADB Private Equity
  - Risks / GP commitment / Management fee offset
- Global Private Equity
  - GP commitment / Carried interest structure / Sustainability
- Conclusion: Every Choice Matters

# Sustainability & Ethics

- Sustainability (지속가능성)
  - Factors: Time – long term horizon, Balance, Mutual benefits
  - Sustain-ability vs. Commercial success
  - Social, economic, and environmental sustainability
- Ethics (윤리)
  - Not philosophical but practical
  - 상대적 윤리가치 vs. 절대적 윤리가치
- Integrity (진실성)
  - Choosing your actions based on values rather than personal gain

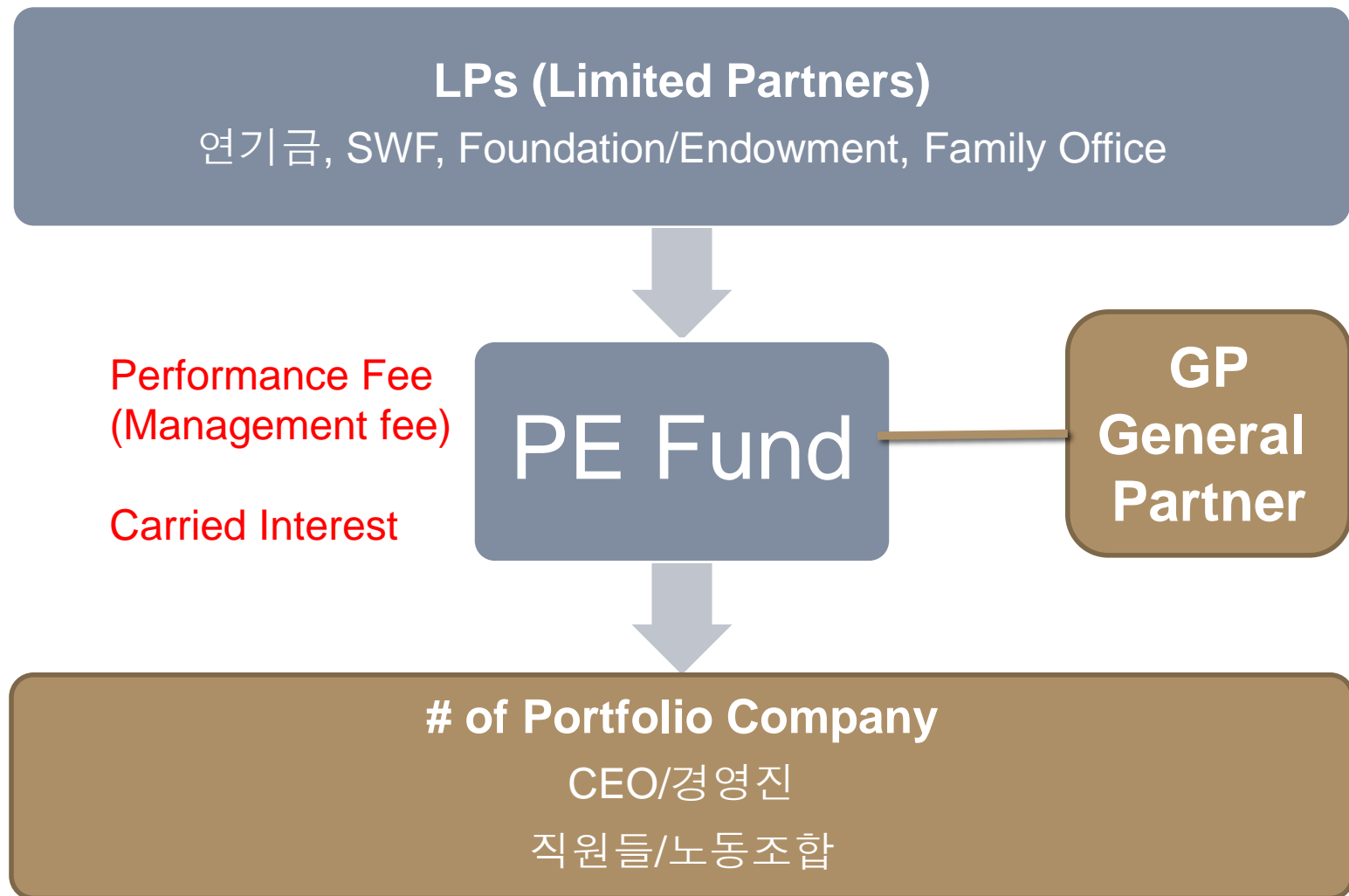
**Wrong is always wrong, just do the right things.**

# Private Market Investment Ecosystem (PE / Infrastructure / Real Estate / HF)



# Agency Problem

Where? Why? --- Interest Alignment



# Conflicts: Part of Our Life

“No World, or Life, without Conflicts”

**Portfolio Company XYZ**

**Shareholders**

**CEO/경영진**

**Managers (과/차/부장)**

**직원들**

**노동조합**

- Thus, every choice you make shapes your career and more importantly your life. It defines who you are.

# Personal Choices

## (Always Follow Your Heart. It Knows You Best)

### El Paso

- From H Group to El Paso Corp.
- 다른 외국인회사 vs. Career change to PE thru MBA
- Risks: Age (too late to change), No guarantee for success, 유학비용

### MBA

- Research on schools: extensive reference checks thru alums
- Expect. at US energy corp. vs. PE job
- Risks: High entry barrier, No track record, Korean, Age

### ADB

- There is no ideal world.
- 평생직장/연금 vs. Partner at global PE firm
- Risks: BD as top priority, Again from scratch



# ADB PE

## Development Goals & Commercial Return

First time GP investing in developing countries in Asia

### A. First time fund risks

- Lack of track records
- Trust issues related with their commitment
- Uncertainty of fund raise
- Potential turnover (Challenging to retain talents)

### B. Emerging market risks

- Weak governance and legal enforcement
- Fragile capital market
- “Different” set of business practices and ethics



# ADB PE

## Full of Challenges

### A. GP commitment

- a) More is better?
- b) Incentives: 2% fee / 20% carry

### B. Consulting fee on portfolio companies

- a) Charging for the manager's hard works incl. resources allocated
- b) GP deserves consulting fee in return. But, that's their job.
- c) Management fee offset is necessary?
  - If not, why?
  - If yes, how much do you propose? 100% offset?

# Global Private Market Investor

## All about Interest Alignment & Sustainability

Established global institutions investing in buyouts and venture capital deals primarily in developed markets

### A. GP commitment

- a) Shifting from 1% to 2%
- b) Manager can be rich enough from the 2% management fee
- c) Asset gatherer vs. PE investor for superior return

### B. Carry structure

- a) 20% carry for fund manager
- b) Firm (global platform) vs. Team (sourcing, executing, exiting)
- c) Established platform offering brand name, resources, back office
- d) 50:50 between the firm and the investment team?
  - Who deserves more?

# Global Private Market Investor

## All about Interest Alignment & Sustainability

- A. GP commitment
- B. Carry structure
- C. Sustainability

- Funding LESS
- Fee LESS
- Talents LEAVING
- Performing WORSE

**Vicious Cycle**



# Global Private Market Investor

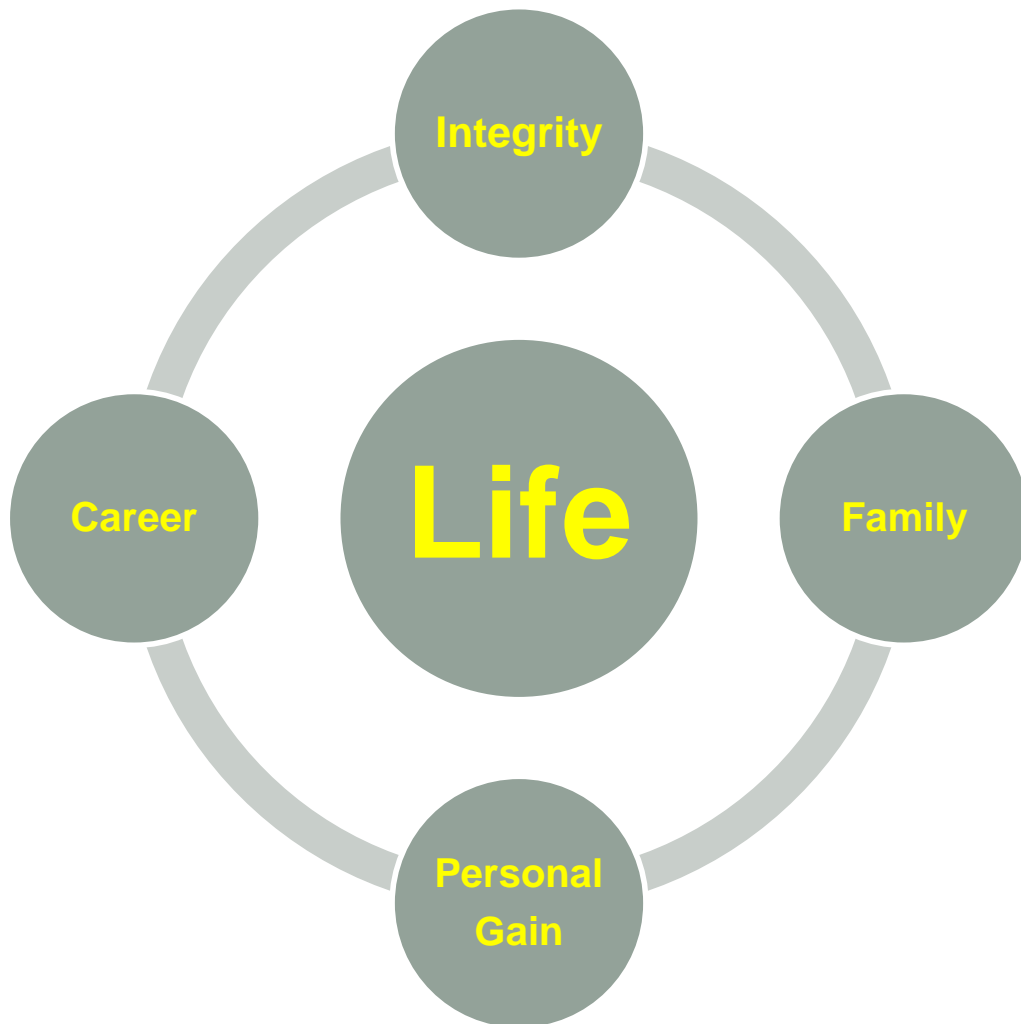
## All about Interest Alignment & Sustainability

- A. GP commitment
- B. Carry structure
- C. Sustainability
  - Performing BETTER
  - Funding MORE
  - Mgmt. fee MORE
  - Talents RETAINED

**Virtuous Cycle**



# Every Choice Matters



**Easy way vs. Right way**

남들이 다 지나간 길 vs.  
자기만의 길

**Don't follow the crowd**

**Follow your heart**

젊어 고생은 사서한다.

**No pain, no gain**

# Every Choice Matters

