

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

2015년 11월 24일

김무신 (서강 '87)

Agenda

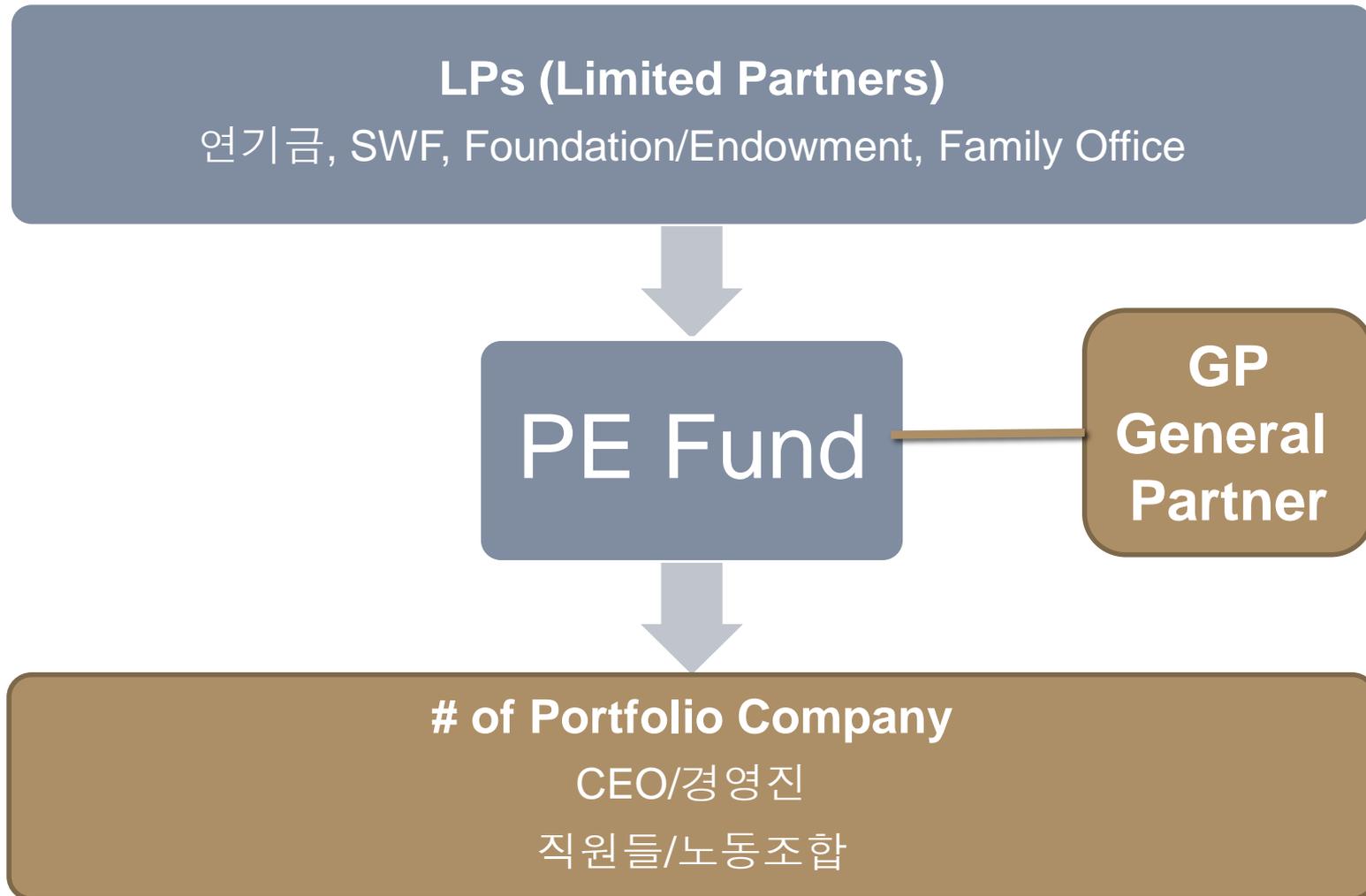
- Opening: Sustainability & Ethics
- Private Equity Ecosystem
- Agency Problem
- Personal Choices
- ADB Private Equity
 - Risks / GP commitment / Management fee offset
- Global Private Equity
 - GP commitment / Carried interest structure / Sustainability
- Conclusion: Every Choice Matters

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

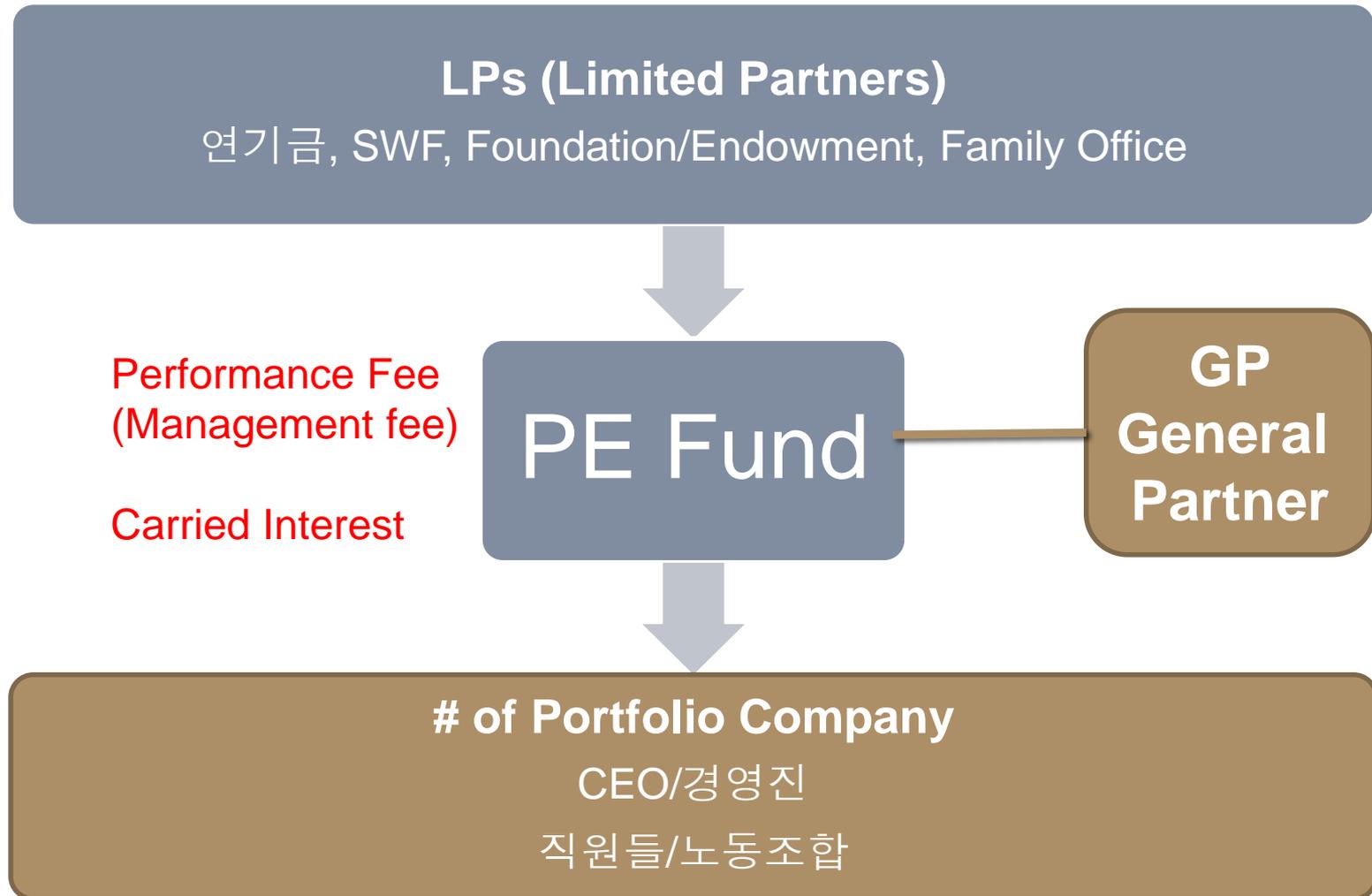
Wrong is always wrong, just do the right things.

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

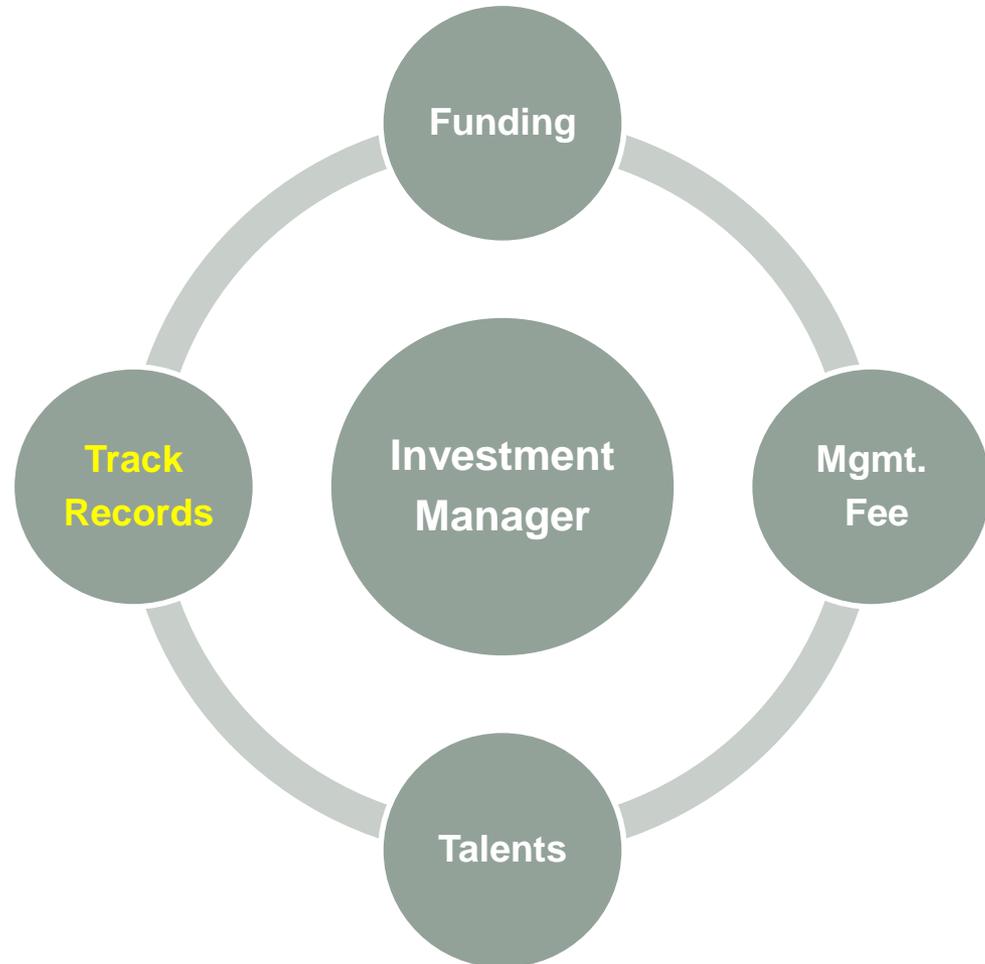
Vicious Cycle



Global Private Market Investor

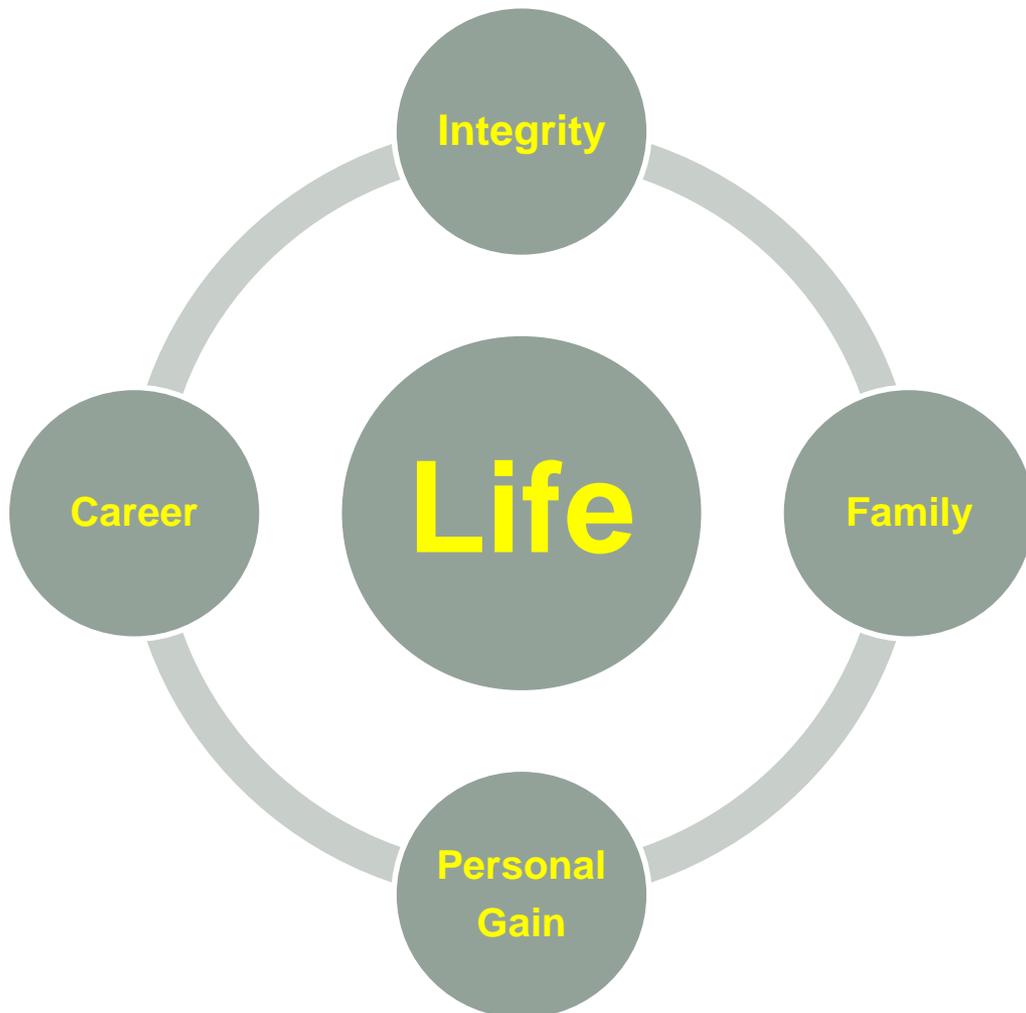
All about Interest Alignment & Sustainability

- 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

