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Italian PE leaders call for industry overhaul

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"The issue is the instrument," said Fabio Sattin, executive chairman and founding partner at Private Equity Partners. "The need for investment is there, the willingness to invest is there, and the money is there... But the funds, as they are structured today, do not fit the needs of LPs and portfolio companies. We are all trying to replicate the past, but both GPs and LPs need to totally renew our strategy, profile and business model."

In a country plagued by bad press, it seems a serious change in strategy is required to sustain LPs' interest. However, according to Claudio Siniscalco, principal at HarbourVest Partners: "The good news is that the industry is reinventing itself; it's in a constant state of evolution. The bad news is that the change has slowed.

"But why does it take so long? Well, funds last 10 years, which gives a fund manager a very long time to hold on to an older business model and investment style: potentially distributing profits within their partnership, potentially maintaining an expensive office at a fancy address. All these things take a very long time to unwind themselves, which is one of the challenges the industry faces."

Changes in legacy structures were the order of the day, though panellists disagreed on the extent of the necessary overhaul. Siniscalco said: "I wouldn't go as far as a complete reinvention of the fund or limited partnership model. I believe in that as a structure that does – to an extent – align the manager and the LP. But within the fine print, things have to continue to change. Take preferred return; not so long ago, many people didn't have that. We believe an 8% preferred return is still appropriate."

But is the model itself still attractive for LPs, the panel asked. Not always, said Roberto Italia, chairman of Cinven Italy: "The statistics around LPs getting better returns from going direct as opposed to being intermediated by private equity managers is something that should make us think about the proposition in terms of value-add."

Growth drivers

Despite the soul-searching, panellists agreed that opportunities abound in Italy and the industry has evolved beyond financial engineering to a healthy focus on growth. "Growth is the keyword for private equity," said Nino Tronchetti Provera, founder and managing partner at Ambienta. "You need to invest in companies with capabilities that other countries do not have but capabilities that they need. So you're left with fashion, food and so on. Italy is a great opportunity because we have a lot of niches. But we need to focus on the skill of scaling small businesses into multinationals. That means management, systems and processes."

Quality assets there may be, but fundraising is an undeniable challenge in the local market, where just one Italian fund held a final close last year, according to *unquote" data*. A huge 67% of delegates revealed their intention to raise a fund in the next 12 months, while 17% will invest instead on a deal-by-deal basis, according to the results of a sentiment survey conducted at the event by Maurizio Delfino, founding partner of Studio Legale Delfino e Associati Willkie Farr and Gallagher.

"The substantial stock of savings in Italy remains under-utilised, if not unutilised, for the purpose of allocation to private equity," said Italia. "This is a market which, irrespective of a lengthy history of successful private equity investments, remains far less relevant in Italy than in its European peers. I really believe we can't wait much longer; that capital has to be mobilised and there is a great opportunity in Italy to intermediate that capital effectively."

A challenging road lies ahead for ambitious players in the local industry about to embark upon fundraising – it seems only the most innovative will survive.

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