McGuireWoods

FUND FLOW

EMERGING MANAGERS PODCAST

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Identifying Fund Managers Who Have a Reason to Win, with Whit Matthews

Voice over (00:02):

You are listening to Fund Flow, a podcast for emerging managers offering insights into the journey of new and aspiring fund managers seeking to have access in a crowded market. Tune in as McGuireWoods partner and host, Jon Finger, is joined by guests ranging from first-time fund managers to proven emerging managers, experienced LPs poised to back emerging managers, and other key participants in the emerging manager ecosystem. Hear their real-world perspectives and gain actionable tips to help inform your strategy and position yourself for a successful fund closing.

Jon Finger (00:38):

Welcome to Fund Flow, a McGuireWoods podcast for emerging managers. I'm Jon Finger, and today I'm very excited to be joined by Whit Matthews. Whit is a managing director at HighVista Strategies, a Boston-based firm focused on alternative investments. Whit is a senior member of HighVista's Private Equity Team, which focuses exclusively on the lower middle market, and he is a member of the firm's Private Equity Investment Committee. Whit joined the team in 2016 as he is responsible for all aspects of the investment process at HighVista. That includes portfolio construction, due diligence, ongoing monitoring of existing and prospective fund commitments, co-investments, and secondaries. Prior to his current role, Whit was a member of the Private Equity Team and Investment Committee at SL Capital Partners, and before that he was an investment professional at the University of Pennsylvania Endowment allocating to private equity, venture capital, and hedge fund opportunities. Whit, thank you so much for joining us today.

Whit Matthews (01:42):

Jon, it's great to be here. I'm glad we're finally doing this.

Jon Finger (01:45):

Well, let's start with, Whit, if you would share with the audience more about your background and ultimately what led you to HighVista Strategies?

Whit Matthews (01:57):

Yeah, no, I'm happy to. Before I jump into me, I just want to take a quick second. I just want to say thank you to you, Jon, and to all your colleagues at McGuireWoods. You guys have been absolutely tremendous stewards and advocates for the lower middle market and the independent sponsor private equity ecosystem. I know we're going to spend a lot talking about that, but you guys have been great partners to everybody in the ecosystem. You've been awesome partners to us here at HighVista. You guys have really stepped up and filled a void in this investment community both for GPs and for allocators. Your conferences have literally become the most productive events that we attend annually, and I know that's a view that's not just shared by the HighVista team, but everybody in the lower middle market ecosystem. I just want to say before we jump in, it's been great getting to know you personally and professionally and all your colleagues at McGuireWoods. I just want to say thank you before I jump into my story.

Jon Finger (02:45):

Well, thank you, Whit. We obviously very much appreciate that and I'm glad to see we put the paid commercials early in the program.

Whit Matthews (02:53):

No, we mean it. So listen a little bit about me. I grew up in a small town in Rhode Island outside of Newport, Rhode Island. My parents moved there just before I was born. They live in the same house that they lived in when I was born, so we get down there pretty regularly. My first job was a paper route, and as I got older I kept myself busy in the summer months doing things like washing cars and mowing lawns. When I turned 14, which was the legal working age in Rhode Island, my parents made me get a, quote unquote, "real job" and I actually got a job as a janitor, of all things, at the local Marriott Hotel. They called it a houseman, but it was a janitor.

(03:27):

I was fortunate enough to go to a small high school in Connecticut that was called the Gunnery when I went there. It's called the Frederick Gunn School today. My father actually went there in the 1950s, which is a pretty cool story, and my brother went there after I did. But it was really a transformative experience for me and I owe a lot of who I am today and my experiences there. It really just helped shape who I am today and it was a special spot and I was glad I got to do it. During the summers during high school, I kept working at the hotel. I eventually worked into a more customer-facing role at the front desk, which was rewarding and I enjoyed my time there.

(03:58):

After Gunnery, I was fortunate enough to get into a school in Philadelphia. I went to the University of Pennsylvania. I'd never been to a big city before, I'd never been that far south before. I always joked that I thought I was going into the deep south and I expected southern accents. When I got there, there was definitely accents, but they weren't southern accents. So Penn was great for me. I played ice hockey at Penn, met many of my very best friends through that. Maybe most importantly, I met my wife. We just celebrated our 20th wedding anniversary this past June, so Penn was great.

(04:25):

When I was at Penn, I was a work-study student. I worked at Penn's Health System in a finance role and after graduation I actually parlayed that work-study role into a full-time opportunity. While I was doing that, I was able to get my MBA out at Villanova on the main line down there in Philadelphia. My first foray into investments really was a stroke of good luck as I was finishing that MBA program. Kristin Gilbertson was the newly appointed CIO at Penn's Endowment. She had joined there from the World Bank and Stanford University, and she was really looking to build out an investment office that looked a lot like the Yale Endowment model and she was looking to hire her first associate and I came across the job posting. Ironically, she was looking for somebody with two or three years of investment banking experience in New York, I didn't have any of that, and she was looking for somebody that was pre-MBA, and I was just finishing my MBA, but I got the interview.

(05:16):

Kristin took a bet on me, she took a chance on me, and the Endowment proved a great training ground for me. I obviously got exposure to private equity, where I've built my career, and we're going to spend some more time talking about that. I was able to work on the hedge fund portfolio, the venture capital portfolio. The entire endowment experience was really great and some of the folks that I worked with when I was there are actually still at Penn's Endowment and I call them friends and we stay in touch today.

(05:39):

Three years after I started at Penn, I was approached by a headhunter for a UK firm that was looking to build a lower middle market private equity team based in Boston, which is where I'm based today. I mentioned before, I'm from New England, so I jumped at the opportunity. This was back in 2009. It was after that point, the next five years, when I really started to immerse myself in the lower middle market private equity ecosystem. That's where I got to know my current partners, Scott Reed and John Dickie, they were at FLAG at the time, and we got to know each other through the Boston network, through various shared limited partner advisory board seats, through the conference circuit.

(06:16):

They were nice enough to formally ask me to join them in 2016, and it's been an incredibly successful journey since we all came together. We've raised and invested multiple funds, they're all focused on the lower middle market. Today we're investing out of our 10th fund, again focused on lower middle market, and we make co-investments, we make fund commitments to emerging managers, we'll do opportunistic secondary commitments, and we're really active in the independent sponsor ecosystem. So that's how I got to HighVista.

Jon Finger (06:44):

That's fabulous. Thanks so much for the story and Penn will always hold a place in my heart. I tell people, both my parents went to Penn, my brother went to Penn, and I was the black sheep of the family and went to the University of Arizona.

Whit Matthews (06:58):

That sounds more fun.

Jon Finger (07:00):

No comment. But that's good stuff. Maybe spend a little bit, Whit, and talk about the differentiated approach at HighVista to private equity.

Whit Matthews (07:10):

Yeah, sure. Let me start at a high level, I'll just describe HighVista, who we are, and then I'll double click on how we think about private equity and what we're doing day-to-day in the private equity ecosystem. So today, HighVista, it's an $11 billion firm. We're entirely employee-owned. We're all based here in Boston and at the highest level we're focused on the pursuit of alpha across various alternative investment strategies. The firm's been around 20 years, we're actually celebrating our 20th anniversary this year. We're going to have a fun event in early June to celebrate. Our founder and CIO, André Perold, likes to refer to our focus as looking for beautifully inefficient markets, whether they be public or private. The goal across all of these strategies is to generate alpha, and to do that especially in areas of the alternatives landscape that's difficult for our clients to do by themselves, difficult for them to do directly.

(08:06):

So on the public side of things, we manage a portfolio of assets that are focused on US small cap biotech investing. We also manage an endowment style portfolio, which offers investors multi-asset exposure across geographies and investment approaches. We have a private credit team and our colleagues there are focused on building portfolios of various non-correlated specialized lending themes. We've got a sister venture capital team, they've been investing in the space for over 20 years. This strategy is a really neat one. It was actually originally founded by Peter Lawrence and Diana Frazier, they're really luminaries in the venture capital investing space. The program today is led by one of their protégés, Kirsten Morin. That business, they just have a tremendous track record of backing some of the most well-known and most access constrained venture capital firms.

(09:01):

Then our private equity strategy, so the team that I'm a part of, we're focused on the smallest end of the lower middle market. We often refer to it internally as the small cap or the micro cap private equity ecosystem. At the most simple level, what we're looking to do is invest in founder and family-owned small businesses, and we're doing this alongside highly specialized and experienced GP partners. I referred to it a little bit before, but our portfolio construction is a mix of co-investments directly into these small businesses and then a mix of fund commitments to lower middle market managers, often emerging managers that are investing into these same small businesses.

(09:42):

We're really proud of the fact that we've got a deep history of partnering with firms that today are actually really well-known larger firms when they were much smaller before they were institutional. Over our history, we've made over 150 fund commitments, we've made more than 100 co-investments, and we've done those alongside dozens of funds ones, twos, even threes, and we're really active in the independent sponsor space, like I said before. So emerging managers, lower middle market managers, that's what we do. That's the ecosystem that we eat, sleep, breathe every day.

Jon Finger (10:11):

That's great. Before we talk more about details on your strategy, maybe tell me a little bit about how you built the team at HighVista to execute on all the different strategies, and in particular lower middle market private equity opportunities.

Whit Matthews (10:32):

Yeah, I appreciate the question and I love the question because we're super proud of the team we have. We've got a really special group of people that are focused on everything we do at HighVista, and particularly on the private equity side of things. So I mentioned John and Scott earlier, they co-head our lower middle market private equity program here at HighVista, and they bring a really differentiated and unique DNA to the table having both began their careers as principal investors. So John was at Berkshire Partners here in Boston. Scott was at JH Whitney earlier in their career career. We believe this experience as principal investors really helps us stand out when we're partnering with managers in the lower middle market. We've sat in their seats before, so we've really purposely built the team with folks that have experience similar to this, such that we can execute most effectively on investing in the lower middle market.

(11:24):

So our most recent hire, and it was years and years ago now, was a gentleman, Rob Nagle. He joined us back in 2018. He started his career at Bain here in Boston, and then he was part of the team that spun out of Golden Gate to form a firm called Altamont Capital, so he also brings that same principle investment experience to the table. Ryan Tiffany has been a part of the team since 2008. He joined from a consultant that was working directly with the portfolio companies of lower middle market businesses. I mentioned my experience at the endowment, I'd also be remiss if I didn't mention our two outstanding vice presidents that are on the team. They've both been with us for over five years. Andrew Gonzalez joined us from a local consulting firm called EDA, very well-regarded in the region. He's been terrific. Then Jordan Kempfle joined us from the Partners Healthcare Endowment also here in Boston. Those guys have just been tremendous parts of the investment team and we really love working with them.

(12:21):

We've also got three dedicated associates that are focused on the private equity investment strategy, and I'd be most remiss if I didn't mention everybody else that supports the program. So we've got over 40 people in various operational roles, think legal, compliance, finance, investor relations, I'm sure I missed some folks, but there's lots and lots of people that support the private equity program here at HighVista and we're really proud of the team that we have and it's a really special group.

Jon Finger (12:46):

No doubt. Thanks for sharing that, Whit. As we spend a little time talking about the strategy at HighVista, maybe we start with hearing your perspective on the role that independent sponsors play in your private equity strategy.

Whit Matthews (13:06):

Yeah, I mean I think independent sponsors and emerging managers more broadly, it's a huge part of what we invest in and it's certainly a huge part of where we spend our time. I'm guessing that everyone who listens to this podcast, maybe aside from my mom and dad, will be well aware of these statistics, but we all know that the opportunity set here in this part of the market is really fantastic. I'm stealing this line, but a few weeks ago we had a new emerging manager come through the office and they said, "The lower middle market is the last bastion of alpha in private equity." We love that line. I mean, we absolutely ate it up. I think there's something to that. I think we all know that historically the very best small managers and small deals, so think top quartile managers and deals, they've outperformed other parts of private equity, but we all know that the opportunity set is really big in this part of the ecosystem. There's lots to sift through and not all investments are created equal, so manager selection and deal selection is really important.

(14:05):

I talked about our team, and we pride ourselves on sifting through all of these sponsors and all of these deal opportunities every day, and it's a lot of hard work. to put a finer point on that, we're tracking roughly 500 active independent sponsors today, we see roughly 350 actionable co-investments every year, and that's all in addition to the 200 funds that are raised every year in the lower middle market. So it's lots and lots to sift through. I mentioned the 150 fund commitments that we've made. I mentioned the 100-plus co-invents that we've made. If you peel back those numbers, roughly 40% of what we've done in each of those baskets are either to first-time funds or independent sponsors. So the emerging manager ecosystem is just a huge part of our investment philosophy. Listen, we're big believers that size, bigger funds, larger deals, they can be the enemy of return, and we've just tried to stay consistently focused on the lower middle market over time.

Jon Finger (15:04):

That is exactly how we feel about it and I appreciate the perspective. So when you look at fund ones, new fund managers, what are some of the key factors, LPs, and then more specifically at HighVista, what do you look for when you're assessing those jockeys?

Whit Matthews (15:27):

It's lot and it's more art than science. I know you've talked to a number of people that sit and seats similar to the ones that we sit in here, and so I'm sure I'm going to echo some of the comments that you've heard from others on this podcast in the past. But listen, we're constantly on the lookout for managers that really have a specific specialized reason to win. Typically, that's born out of their prior experience and it's brought to fruition in the form of some type of sector expertise or expertise in some type of investment style, and so we're always looking for that. We really like teams of individuals that have worked together in some capacity previously. Obviously, tying together at the same firm is ideal, but the independent sponsor model, and we'll spend a little bit more time on that, has proved a great avenue for newer manager relationships to come together and allow folks to get these reps before they become emerging managers looking to raise funds.

(16:20):

Teams are really important to us here at HighVista. We like backing multiple people as opposed to backing individuals. All of our senior investment professionals played team sports when they were growing up, and many of us through college, and we're big believers that one plus one can definitely equal something much more than two, so we love team dynamics. Another factor that we spend a lot of time assessing and trying to understand is the ability to source unique and differentiated deal flow. We think it's hugely important. Everybody says they have a proprietary deal, we believe that that's kind of a unicorn in the marketplace today, but we love differentiated deal flow.

(16:59):

When we think about deal flow, it's obviously the lifeblood of these emerging managers and these lower middle market managers, but we're keenly aware that if you're sitting at a middle market private equity shop with a shiny business card, you're likely to see everything. If you hang your own shingle for the first time, I think sourcing is a big TBD, and so we really hone in on how they're going about building their sourcing funnel and how they're going about to build a relationship and build their own brand out in the market. So we spend a lot of time on sourcing.

(17:27):

Outside of those things, we do very deep referencing on every new relationship that we bring through the doors. We'll look to speak with nearly every individual that senior partners have worked with in the past. Nothing provides better perspective than talking to folks that have been in the trenches with these individuals. Most of these managers don't have a traditional track record or an attributable track record from their prior shops, so we look to build those organically and these calls can really help bring those prior experiences to light.

(17:57):

I think the last thing I'd just say, we're very focused on alignment of incentives and we all know that nobody's getting rich at this end of the market on fees, and we really love that dynamic. In order for our GPs to be successful, we have to be successful, and we obviously love that dynamic. We've also honed in on an investor profile that has worked for us repeatedly. We really like backing individuals that have that traditional middle market, lower middle market private equity training, typically 10 to 15 years of experience. They've had reps, they've seen a lot, but they're betting on themselves. They didn't ring the bell in their first role, things have to go right early on for them to be successful over the long term. So we're not mutually exclusively focused on that profile, but it's a profile that we really, really like.

Jon Finger (18:45):

That's great. Super insightful and I appreciate that. You touched on secondaries. What role do secondaries play in HighVista's strategy?

Whit Matthews (18:56):

So they're a big part of the private equity landscape, and for us, secondaries are really a tool, if you will, in the toolkit. So on the investment side of things, we'll definitely look to opportunistically lean into LP secondaries where we believe that we have a differentiated perspective. So we believe that secondary market is really darn efficient and there's lots of things that are very efficiently priced, and we're not going to chase a lot of those mid-cap and larger cap names that are traditionally traded in the secondary market. But many of the lower middle market managers that we track and spend time with day-to-day, they're not well known by the larger secondary players out there. This provides an opportunity to price certain names more efficiently and more effectively, and so we will pursue those opportunities opportunistically.

(19:41):

GP-led continuation vehicles, they've obviously become a huge part of the secondary landscape. Some years they've accounted for over 50% of the market. Each one of these situations is unique, but for most of the single asset situations that we see and that we look at, we treat them no differently than a co-investment. We'll take a direct bottoms up underwriting approach and we'll make a decision from there.

(20:05):

Lastly, in our role as an LP and a fund manager, we're constantly re-underwriting our own portfolio on an annual basis and we'll take a view on which positions in our portfolio we want to hold versus those that we might consider selling. So at the very end of last year, as an example, we actually fully wrapped up three of our legacy vehicles in the secondary market. Through this process we were able to get some capital back to our investors in a year in which regular-way distributions were pretty hard to come by, and they definitely appreciated that and we were very happy to get those vehicles wrapped up. So it's a tool in the toolkit. There's a lot of ways we can use it and it's definitely a big part of the entirety of the private equity ecosystem and the lower middle market.

Jon Finger (20:44):

Absolutely. Zooming out a little bit, and up to you if you tackle this question at the broader macro level or the current events, if you will, of the day, but how do you believe macroeconomic trends and the environment at the macro level that we live in today affect deal flow, affect valuations, and then ultimately affect private equity firms?

Whit Matthews (21:14):

At the highest levels, everybody knows deal flow, no matter what metrics you look at, and fundraising have been down pretty meaningfully since the highs that we saw in 2021 and 2022. A lot of that has been driven by shocks to the economy, a lot of uncertainty as we headed into the elections at the end of last year, and I think there were some green shoots as we turned the page into 2025 that deal volume would pick up. It's early April of 2025 as we record this, and I think the reality is that there's still lots of ongoing uncertainty and volatility in the markets. I think the reality is that most folks, at least in the lower middle market, and I think in mid-cap and larger cap private equity as well, folks have just continued to sit on their hands.

(21:57):

It feels very similar to the messaging we were telling ourselves as we went into the end of 2023 where everybody thought M&A activity was going to pick up in the first half of 2024 and it never really came to fruition. So we're using the phrase internally of "slower for longer" seems to be the reality. I think that's certainly the case for the first quarter of 2025, and we expect it to be the case for probably the first half of 2025. We'll see where things play out in the second half of the year. We remain cautiously optimistic, but slower for longer seems to be the reality that we're living in.

(22:31):

On the valuation side of things, it appears that the spread between buyer and seller expectations is still pretty wide for most businesses, and I think this is really driving that decreased deal volume that we've spoken to. That said, we have observed, and this was consistent across 2024 and it has been consistent in the first part of 2025, high quality businesses, so those that are growing nicely, those that have diversified customer bases and strong margin profiles, those businesses continue to trade for healthy multiples.

(23:04):

Just this past week we actually had one of our managers that sold a business for a double-digit, apologies, return of capital. The deal literally is going to return the fund. The business was in an adjacency to the broader home services roll up plays that we've seen over the last five or so years. The business was a first mover in the space that it had played in, it wasn't a late innings HVAC or landscaping roll up play. Not there's anything wrong with those. We've had tremendous success in both those spaces and we've got existing portfolio companies that are doing really well in both those spaces, but this was a first mover in the end market they were playing in. The business itself had literally grown both organically and through M&A from a low single-digit EBITDA business to a mid-teens EBITDA business in just less than three years, I think. The business ultimately commanded an exit multiple of 14 times cash flow from a mid-market private equity shop that we would all know.

(24:02):

To us, this is a classic example of our build inventory in the lower middle market in the small cap ecosystem to sell up the private equity food chain thesis. Our observation is that high quality businesses continue to trade in this market, but everything else that buyer versus seller expectation continues to be pretty wide, and I think that's leading to the slower deal volume that we continue to see in the first part of the year here.

Jon Finger (24:27):

Absolutely. So you touched on a few of them, but what other material challenges do you think are most prevalent facing private equity firms in the lower middle market today?

Whit Matthews (24:43):

Yeah, I mean, I'll harp on a little bit of what we just spoke to, or at least all of what we just spoke to. I think lack of deal activity and lack of liquidity, they're clearly at the top of the list for everybody in the private equity ecosystem and particularly in the lower middle market. Investors, LPs are anxious for distributions. The lack of cash flows back to those investors, coupled with this denominator effect we're feeling at least as we sit here today, it's making it very hard for lower middle market managers, whether they're new or established, to raise capital in this market. So I think getting distributions back to investors, getting deal activity going is at the top of the list of challenges.

(25:23):

I think it's worth commenting that the marginal LP today is a little bit more risk-off versus risk-on. For most people, lower middle market or small cap private equity isn't at the top of the safe to do list. We don't ascribe to that view, but we certainly observe that folks that are allocating to private equity in earnest tend to be allocating to the mid-cap and large cap guys because some perceived safety with those types of managers, so it makes it hard for these lower middle market managers to raise capital. Like I said, we're obviously not of this mindset. We've got a team that's dedicated to navigating these waters and history has shown, we all know it, that times of uncertainty or distress are often the best times to invest and generate the best long-term returns. So we feel really fortunate to have a consistent strategy that's focused on allocating capital to this part of the ecosystem and we're excited about the opportunities that are going to present themselves to us over the course of the year.

Jon Finger (26:15):

So in light of the current fundraising environment, I know you spend a lot of time talking to GPs, what advice do you give GPs who are looking to stand out amongst the institutional investor community?

Whit Matthews (26:31):

Yeah, I mean I guess first off, just in terms of advice, be prepared to take it slow. Very few folks are moving through market efficiently, or certainly as efficiently as they'd hoped. We commented raising capital in this market, it's super difficult. Listen, for many, and I think one of my biggest pieces of advice would be the independent sponsor route may make a lot of sense in this market. Go out, find a good deal, find a few partners, generate some great returns, and then come back to market to raise a fund after you've put a few proof points on the board. We love managers pursuing that independent sponsor model as opposed to rushing after fund in a market that we know is going to be really difficult.

(27:12):

I think if you do push forward with a fundraise, be humble. I think be transparent. The process is going to take a lot longer than you think, it's going to involve a lot more meetings than you think, lots of data requests. Just be patient, be humble, and be transparent. For us as we sit here today and we go through our weekly pipeline meetings, we've got dozens of actionable fund opportunities on our plate right now, and they've all got their merits and only a few of them are going to get done.

(27:39):

I guess the last thing I'd say is visibility helps. It's a little bit of the chicken or the egg phenomenon, but to the extent that you can provide visibility into deals, one, or two, potentially provide some co-investment, those are going to be the situations that might get a little bit more attention from allocators and LPs like ourselves. It's not always easy to do and you can't force a deal to get done unnaturally, but visibility definitely helps when you're trying to raise a first-hand fund in the form of potential early deals.

Jon Finger (28:09):

This question I know is not going to be easy to answer without having a specific GP in front of you, but I'm going to ask it anyway. When a manager comes to you and says, "Should I keep doing deal-by-deal, independent sponsor strategy, or should I raise a fund?" how do you help them analyze the right answer to that question?

Whit Matthews (28:39):

It's a terrific question. I think a lot of it goes back to the motivation of the GP and the GP partners specifically. I always use the anecdote of if anybody finds their way to the opposite side of a conference room table at HighVista here, they're probably a pretty darn good investor and they've done some things right over the years and they've got the investment acumen and the skill set to do good deals. Raising a fund and building a firm is a different endeavor than doing good deals. We spend a lot of time with managers who are grappling with the question that you just laid out in terms of just understanding their motivation. Do they want to build a firm and have many employees and many portfolio companies and many limited partners around the table, are they truly looking to be an entrepreneur, if you will, and build a business, versus that individual who may be less interested in those things that I just described, but might be really great deal doers.

(29:44):

So I think for those individuals that are deal doers, the independent sponsor model may make a ton of sense. You can generate really great wealth for yourself and you might have to deal with less of the firm management dynamics that you would have to deal with if you raised a fund. Again, that could involve limited partner relations, it could involve managing portfolio companies, it can involve all the back office and regulatory stuff that comes with raising bigger funds. So it's a little bit of just honing in on the actual motivations of the GP and the partners themselves.

Jon Finger (30:17):

Great insights. Thank you, Whit. How about the role of co-investments in HighVista's strategy? Has that role evolved over the years and how do you see these LP/GP partnerships changing in the future?

Whit Matthews (30:35):

So co-investments have played a role in every single one of our portfolios dating back to 2012, that was our fund five. We very consciously took what we refer to as a crawl, walk, run approach to get to where we are today from a co-investments perspective, which is an allocation of, depending on the fund, anywhere from 30 to 45% of our portfolios to co-investments and direct deals. Sometimes that comes in the form of seasoned fund commitments as well. We don't anticipate moving off of these allocations that we're at today, we've been here for a few funds, and the reason is we spent a lot of time analyzing our own portfolio construction and we believe that at these levels we can build really well-diversified portfolios, which mitigate a lot of downside risk, while at the same time maximizing the opportunity for outperformance with these very specific allocation levels.

(31:37):

You asked about the changing LP/GP dynamic. We don't see it changing dramatically. It's obviously always evolving, I guess evolution is a form of change, but listen, we look to be partners with our GPs. We're an open book to our GPs. We sit on the Limited Partner Advisory Board of every fund that we commit to. We're really, really proud of that and that provides a forum for regular ongoing direct dialogue with our partners. That's really what they are, they're partners. We've been at it for a long time. I mentioned all the co-investment we've done through our fund commitments. We've got visibility into plus or minus 1,000 other portfolio companies. So everything we see from a new deal perspective or from a situation perspective rhymes with something else that has happened or that has been done in our portfolios. We're constantly trying to bring those perspectives, those experiences to bear. We're constantly trying to lean on the pattern recognition that we've developed over the years and we're looking to share those insights and that visibility with our GP partners such that we can help them be better investors and better partners over time.

Jon Finger (32:44):

So you've spent a good bit of time giving great advice to the GPs, which is hugely appreciated. What are some of the biggest challenges and opportunities that you see opportunities for the LP community over the next few years?

Whit Matthews (33:02):

For the LP community I think there's a couple things, and I think liquidity is top of the list. I talked about what we've done on the secondary front in terms of finding ways to manufacture liquidity in certain positions that we think it makes sense to sell. I think for all LPs, giving some thought to how they leverage the secondary asset class, if you will, as a tool in the toolkit is important. You spoke to challenges, I think the lack of distributions has made it harder for certain groups to continue to invest into the private equity ecosystem. We feel really fortunate here at HighVista that we raise funds every handful of years with a dedicated mandate to continue investing regardless of where we are in the cycle, and so we're going to firmly lean into that opportunity set. But I do think for many LPs that that lack of liquidity is going to make it to more difficult to allocate on a consistent basis if they're not getting distribution back to them.

Jon Finger (33:57):

Then I guess finally, you've given a lot of great nuggets for the GP world, but when you sit down with a fund manager this afternoon, what is the one piece of advice that you would give them to navigate today's market?

Whit Matthews (34:15):

Yeah, we talk to lots of managers, and like we've said, this fundraising thing is not easy. It's hard. I think if there's one thing we consistently look for from our partners and our most successful partnerships, it's transparency. Transparency has never been more important. We encourage folks to share everything, whether it's existing managers or prospective managers. Share the good news, share the bad news, make sure your investors, make sure your prospects, make sure your CEOs, your management teams know what's going on. Don't hide anything. It's all going to come out eventually, and I think the more transparent and the more open that you can be, the better. I think sharing lessons learned, it's a sign of humility. It's also a sign of strength. You guys are, I'm saying you guys, but if I'm talking to a GP partner, they are building a partnership. It's right in the name of everything we do, general partners and limited partners, and we really encourage folks to take that to heart. These are long-term relationships, these are partnerships, and we encourage folks to treat them as such.

Jon Finger (35:12):

That's fabulous advice. Well, Whit, thank you for joining me today on Fund Flow sharing your insights, sharing your journey with the emerging manager ecosystem. Thank you to our listeners for joining us on this latest episode of Fund Flow. We hope you join us again next time.

Whit Matthews (35:30):

Thanks, Jon. That was a lot of fun.

Voice over (35:32):

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