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From Risk Awareness to Risk Management in Private Equity

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IN THIS ISSUE OF FIELD NOTES

John Haggerty shares his perspectives on some of the important questions facing institutional investors today.

Operationalizing Risk Mitigation With Private Equity Investment

For institutional investors, managing risk in private equity has always required more than identifying potential challenges.

It requires translating those risks into actionable decisions, from initial underwriting and manager selection to ongoing monitoring, governance, and portfolio construction.

As market conditions continue to evolve, the question is not simply how investors identify risk, but how they incorporate risk management into their broader investment objectives without losing sight of long-term returns.

At the recent Council of Institutional Investors (CII) Fall Conference in Boston, Meketa's John Haggerty participated in a panel titled "Operationalizing Risk Mitigation with Private Equity Investment." The session explored the practical considerations facing limited partners ("LPs") as they seek to strengthen oversight, manage downside exposure, and navigate an increasingly complex private markets landscape.

What's Inside

Consulting Perspectives On Managing Risk

In this edition of Field Notes, John shares his perspectives on operationalizing risk mitigation within private equity investing, from the role of governance and manager due diligence to the evolving relationship between risk and return.

Looking ahead to 2027, his reflections offer an opportunity to consider how investors can move beyond understanding risk toward building more intentional and resilient approaches to managing it.



JOHN HAGGERTY
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Important Takeaways

Your panel focused on operationalizing risk mitigation in private equity. What were some of the most important takeaways from that conversation, and were there any perspectives that challenged or reinforced your own thinking?

The recent artificial intelligence ("AI") revolution has created very different outcomes across industries, companies, and private equity programs in the past two years. I think this speaks to the growing importance of knowing what drives the individual portfolio companies you own.

Historically, most programs, even very large ones, have been constructed primarily from the bottom up.

Investors evaluate individual opportunities and build portfolios as a collection of the managers and strategies they believe are most compelling at the time of commitment – with less regard at the time of commitment—with less regard for their category. Diversification among (or specifically targeting) themes, sectors, geographies, or macroeconomic factors has generally been a second-order consideration. LPs have trusted general partners ("GPs") to make those calls – and the typical five-year investment period conspires against any market timing by LPs.

The current macroeconomic and geopolitical environment is highly dynamic. AI alone is likely t drive meaningful divergence between companies that benefit from it and those that are disrupted by it. Today this is clear in software, but soon we could see the same in other industries.

So, we may need to be more deliberate in creating exposure to specific industries, geographies, and economic themes going forward. Simply knowing how much is allocated to buyouts, venture capital, or growth equity may not tell you enough about the risks you're trying to manage.





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>
> JOHN HAGGERTY | *MEKETA*

Strengthening Your Approach to Underwriting, Monitoring, and Identifying Risks



Risk management in private equity begins well before an investment is made. Where do you see the greatest opportunities for limited partners to strengthen their approach to underwriting, ongoing monitoring, and identifying potential risks before they materialize?



I would start with diversification, but perhaps with a more granular definition of it. Exposures spread across different managers, sectors, strategies, geographies, and vintages may seem diversified. But they may react similarly to unforeseen market and economic forces.

Consider the difference between a stable, modestly levered manufacturing business with a diversified customer base and a rapidly growing software company acquired at a high multiple with low leverage. Both might fall within the same broad buyout category, but their underlying risk characteristics could be very different.

In the public markets, investors have developed relatively sophisticated approaches to measuring and evaluating risk. Standard deviation and correlation aren't perfect metrics, but they do provide a decent framework how investments might behave in the future. Private markets have lagged in developing accepted measurements of risk. Practitioners often perceive a relatively uniform level of risk across segments of the private equity market—apart from venture capital.





Complex Private Markets Portfolios Require Balance

As private markets portfolios become increasingly complex, how should institutional investors think about their oversight responsibilities, particularly when balancing the need for transparency with the realities of investing through general partners?

Transparency is an important part of effective governance, but there are some necessary limits for the private markets to function. Certain things will need to stay confidential: proprietary information about a portfolio company's strategy, competitive positioning, or potential sale process. Broad disclosure of this could work against investors' interests. LPs, however, do need the data to help them manage portfolio risk and monitor the GP's execution of the strategy.

One of the advantages of managing a private company (versus a public company) is less time and expense spent on reporting and less pressure to post short-term results. The private market environment can focus GPs on long-term strategy and facilitate spending capital that can ultimately create value for investors.

The objective should be to establish reporting and governance practices that provide meaningful insight into portfolio exposures and strategy execution by the GP while preserving the advantages of private ownership.

Liquidity Considerations for Private Markets

Liquidity has become an increasingly important consideration for private markets investors. Beyond meeting cash-flow needs, how might limited partners think about the strategic value of liquidity, and where might co-investments fit into that discussion?

I think there's an interesting dimension to liquidity that doesn't always receive enough attention. Traditionally, we tend to think about the value of liquidity in relation to market conditions. When investors become fearful, liquidity becomes more valuable, bid-ask spreads widen, and the cost of accessing capital can increase.

But I would argue there's another reason liquidity can be particularly valuable: it gives investors the ability to change their minds. When the economic environment is relatively predictable, investors may be more comfortable committing capital for extended periods. But when technological developments, economic conditions, or other structural changes create uncertainty about the future, the ability to adjust exposures becomes more attractive.

We're in an environment where markets have performed well, yet there can be considerable disagreement about what the future holds. That uncertainty may cause investors to place a greater value on maintaining flexibility. And while liquidity is one way to preserve that flexibility, it's worth considering how other investment strategies can provide investors with greater control over their portfolio exposures.

The Wealth Channel

Looking ahead to 2027, what stood out from the broader conversations at CII, and what questions should institutional investors be asking as they consider their private equity allocations?

Have we reached a saturation point for private equity in institutional allocation policies? For many years, institutional investors were actively increasing their long-term targets. Now, a significant majority appear inclined to maintain or increase their existing commitments, while some large public pension plans have reduced their long-term targets to private equity.

> "So, what will be the source of future growth in commitments to private equity funds? Perhaps it will be the wealth channel."
>
> JOHN HAGGERTY | *MEKETA*

Separately, given the slowdown in distributions being attributed—in part—to a widening bid-ask spread, will there be a step down in marks? Investors should continue asking about how valuations are determined and how (and when) specific assets will be sold.

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About Field Notes

Field Notes is Meketa's running journal from the institutional investment road. It captures the ideas, conversations, and emerging themes that shape our industry, told through the eyes of the consultants and researchers who experience them firsthand.

Each edition distills what we're hearing across conferences, client meetings, and peer conversations. We highlight what is top of mind for allocators, share timely insights from our team, and offer a closer look at the people behind the work.

Field Notes is designed to be fast, useful, and human. It surfaces the patterns, questions, and stories that help us better serve clients and stay connected as a community of practitioners. Whether it is a major market trend, an unexpected conversation, or a standout moment from a conference, Field Notes brings those perspectives forward so that others can learn from them.

Our goal is simple: bring you inside the moments that matter and provide perspective on where the industry is headed next.

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