Personal experience V AI: Why human intuition is still vital for success in Private Equity

With the rapid growth of machine learning and artificial intelligence, the world is welcoming more platforms that can replicate a variety of human-like activities. In many industries, AI is being adopted to improve customers' experiences and guide their decisions using complex algorithms. In this respect, investing is no different.

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AI application and investment within private equity has been extensive, allowing firms to enhance many processes such as identifying new opportunities, improving portfolio and risk management, and optimising exit strategies.

However, one of the pressing questions from investors and fund managers alike is whether machine learning can ever outscore human experience in the private equity sphere and in *private equity investments*.

Maven, a leading private equity and property manager, looks at how human relationships and personal experience will always be a vital component to drive success in the field of private equity.

Why personal experience outshines artificial

intelligence

One of the things that's worth keeping in mind is that private equity is people-centric. This is because it relies hugely on the knowledge, judgement, and overall experience of investment professionals and the relationships they form with management teams.

As in many other industries, there is no substitute for real face-to-face rapport-building. Human interaction allows you to establish trust. This is an essential component for investors to build a strong working relationship with management teams of portfolio companies' and post-investment enables effective board relationships to flourish.

While AI can help investment firms by carrying out many data lead activities and monitor financial patterns effectively, it can't replace that human intuition and the ability to make subjective judgements.

Human intuition and experience allows for assessment of factors such as interpersonal dynamics, a company's culture as well as attitudes to ethical issues, environmental impact and labour practices, considerations that often impact a company's performance and something which machine learning is not yet fully able to do with any kind of accuracy.

It may be able to predict the type of talent to perform in a particular role for example but not how the often-complex human relationships on a board could influence investment performance.

In this respect, Suzanne Lupton, Director of Co-investment at Maven, said: "AI is undoubtably invaluable at analysing data and financial figures, but where I feel it falls short at the moment is in assessing some of the qualitative factors that people consider when making an investment decision.

“Yes, AI algorithms can identify potential investment opportunities, prioritising financial metrics or growth predictions. But the investment process for private equity will always have to consider the more complex human dynamic and the understanding of ethics and morality.

“Bearing in mind that the character and makeup of a management team and the process of establishing trust between management and investor is one of the most important considerations in deciding to invest.

While AI provides significant opportunities for the private equity industry, but can it really replace human intuition? In all honesty, expert judgement and experience is simply irreplaceable.

“When building a portfolio of private equity investments choosing an investment manager with a long track record and experienced investment teams will help you benefit from those years of personal experience and expertise to drive your investment returns.”

Suzanne Lupton, Director of Co-investment at *Maven Capital Partners*.

Article by Suzanne Lupton