

Morgan Stanley hunts for more emerging managers after allocating billions to them

Private Equity Solutions team has deployed roughly half of its commitments over the past decade to Fund I, IIs and IIIs.



Financial services giant **Morgan Stanley** is actively seeking emerging managers after quietly deploying billions of dollars to next-generation private equity firms over the past decade, LP Allocator News has learned.

In an exclusive interview, **Neha Champaneria Markle**, global head of private equity solutions at Morgan Stanley, said her team has allocated roughly half of its capital over the past 10 years to first, second and third-time funds. The PE money manager, part of Morgan Stanley Investment Management, managed approximately \$20 billion as of year-end.

Markle said the team continues to seek new emerging manager relationships, particularly with firms offering deep sector expertise, and encouraged prospective sponsors to contact her team directly. "I want to see everything," she said. "We're always happy to have direct outreach from GPs. We welcome that."



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Morgan Stanley

The scale of Morgan Stanley's commitment to emerging managers is likely to surprise many in the private markets industry, she said. The firm looks to back high-potential teams early, with a particular focus on lower-middle-market strategies, and often maintains allocations to its active emerging manager relationships over multiple fund vintages.

"Sometimes people assume that because we're Morgan Stanley, we are focused on the larger end of the private equity market, and they are surprised to hear that, in fact, we prefer lower-middle-market funds. And we certainly have been very active with groups that I would call emerging managers," Markle said.

Investment Strategy

Markle's team maintains a broad private equity mandate but has a strong preference for the lower middle market. Approximately 60 to 70 percent of capital is deployed in North America, with the balance invested primarily across Western Europe and Asia. The lower-middle-market focus naturally results in significant exposure to emerging managers because many firms in the segment are raising their first few institutional funds. The team is also open to backing independent sponsors.

Manager Selection

Morgan Stanley is willing to back a wide range of emerging managers but places particular emphasis on experienced investment teams, including spinouts from established firms. Markle said the team often spends months or even years building relationships with prospective managers while continually searching for new opportunities.

Specialization

Sector specialization plays a central role in Morgan Stanley's manager selection process, with the firm favoring focused investment strategies over broader mandates.

"We really like focus," said Markle. "We prefer single-sector specialists because it's easier to define what they're going to do. It allows for a richer, deeper discussion on what their pipeline might look like and what unique point of view and resources they might bring to an investment mandate," she said.



“We’ve been very active with groups that I would call emerging managers, and we see compelling opportunities in managers with deep sector expertise.”

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Independent Sponsors

Markle's team tracks and invests with independent sponsors but is most interested in those planning to launch their own commingled funds. She said the firm is willing to support those managers before Fund I, including by helping them assemble a pre-fund portfolio that can later be transferred into a debut fund through warehouse arrangements.

"If we have conviction that a GP is ultimately going to raise a fund, we will be very creative and flexible with them. But all of it is with an eye towards ultimately becoming an LP," she added.

Capital Allocation

Morgan Stanley Private Equity Solutions has deployed approximately \$30 billion since its inception across buyouts, growth equity and venture capital. The team allocates roughly 60 percent of its discretionary capital to primary funds and the balance to co-investments and secondaries. AUM is roughly split 50/50 between commingled funds and SMAs.

Team

The unit comprises over 80 professionals, and the firm continues to expand its team.

"We constantly have people coming in. We need people. It's a labor-intensive activity to cover the long tail of private equity managers in the lower middle market," Markle added.

Background

Morgan Stanley Private Equity Solutions traces its roots to 1999, when Morgan Stanley assumed management of the private equity assets of the pension fund of **Weyerhaeuser Company**, a U.S. forest products company. The team is based in Suburban Philadelphia and has investment professionals located in New York City, London and Hong Kong.