Fundraising

I cannot pretend to fully understand the anguish GPs go through when fundraising. I can only imagine the logistical nightmare that comes with herding potential LPs of varying categories, geographies, concessions, and concerns/questions. Roundtripping a fundraising cycle must be a challenging feat, especially for the non-preordained (who make up the majority of managers) darlings of the industry who seem to be perpetually oversubscribed. With the sincerest of humility and the stern disclaimer that I don't profess to be the oracle of every facet of private assets, I believe my thousands of interactions (spanning two decades) with fundraising GPs provide a critical perspective on effective capital raising, at least in my opinion (and the opinion of many of my peers, and entities I have represented). In the current private assets environment displaying a well-publicized slowdown in exits, accumulating dry powder, remnants of the denominator effect, impacts of higher interest rates, and generally depressed valuations, fundraising is understandably feeling the brunt of increased investor selectivity. This makes it essential for actively raising GPs to use all accessible techniques to stand out from the crowd. Below, I list a few things that I believe keep GPs top-of-mind with prospective LPs.

- **Laying the groundwork when fundraising is not yet in full swing**: I always enjoyed talking to GPs when they were not yet actively fundraising. Conversations were less transactional, and the power dynamic was neutral, so candor didn't lead to awkward silences or subliminal digs and counter-digs. Of course, the 'fundraising schedule' conversation eventually occurs, but the atmosphere in these pre-fundraising meetings tends to have an easygoing feel to it that is accretive to forming real relationships that can grow into insightful future interactions.

- **Showing leadership**: During fundraising meetings, GPs that show clear leadership can quickly get ingrained in a prospective LP's mind. *What does this vague statement mean?* GPs who rationally don't kowtow to every implicit or explicit expression of an LP's investment philosophy create banter that piques the intellectual curiosity of the potential investor. These conversations are usually authentic (extremely difficult to fake) and memorable. I am not prescribing a defensive stance where the GP haphazardly looks for points of contention. I am rather advocating for the articulation of a clear investment ideology that in certain circumstances does not neatly jibe with an LP's stance.

- **Admitting to past mistakes**: LPs are just as human as GPs, so past mistakes and strategy resets are understandable when assessing a manager. Rewriting history, defensive excuses, blatant blame of others, purposeful omission, and conspicuous glossing over, are all orange (if not red) flags when past mistakes are the topic of discussion. A GP cannot force every LP to accept the reasons behind past blunders, nor can every LP be pushed to believe that past mistakes have been learned from, but a general policy of honesty keeps integrity intact for those potential investors inclined to do more work.

- **Thoughtful Due Diligence Questionnaires ("DDQs")**: A prospective LP's key goal is to efficiently get to the essence of a GP. Thoughtful DDQs are very effective in facilitating the due diligence process. It is always very apparent when a GP has taken the time (or not) to create a DDQ that answers the low-hanging fruit questions, as well as delves into some deeper subjects that prudent LPs would likely want more color on. I have found that ongoing conversations (and the will to have them) are greatly influenced by how useful and self-examining the DDQ was. At its core, I believe a DDQ is a device to show prospective investors how well a GP knows itself and its audience.

- **Making supporting cast members available for interaction**: When an LP assesses a fund for a potential investment, understanding the manager's culture, work environment, persona, and ethos is vital. Without speaking to broader team members (preferably of all ranks), gauging an organization's character is difficult. Some GPs only make senior staff available for meetings because they believe (not necessarily wrongly) that prospects want to interact with key decision-makers. Some GPs allow lower-ranking staff to interact with potential investors but with a senior team member always present as a chaperone of sorts – this is always awkward. The GPs who are comfortable with their whole organization's talent and culture give free rein to LPs to speak to whomever they choose regardless of position – this approach exudes (and helps potential investors with the assessment of) alignment.

- **Placement agents and GP dynamic**: Placement agents can play a vital role when it comes to the distillation of a clear investment strategy message as well as streamlining the capital-gathering process, but the GP still has to shine supreme. Generally, second-hand information is not preferred by prospective LPs - the horse's mouth is where the true magic can be found. In many ways, I view placement agents as essential traffic directors who bring a calming presence to all parties, but the GP has to ultimately be in the driver's seat. Regardless of the degree of polish and media training a GP possesses, LPs still prefer hearing directly from the GP as much as possible, even if the placement agent has to play referee or conductor in some circumstances.

- **FOMO with substance works**: I have preached in the past about avoiding echo chamber investing, which I view as an intellectually lazy and self-preserving way to get to a final decision of whether or not to invest in a manager. However, there exist investors (including some excellent funds of funds) renowned in the LP and GP communities for their extremely thorough due diligence - if a GP has run the gauntlet with any of these distinguished investors and received decently sized investments from them, I believe it is fair game to use this as a means to entice attention from other potential LPs. The use of FOMO in such scenarios is to telegraph a level of quality. I however want to underscore that a GP merely stating that one of these respected LPs is looking at or currently diligencing its fund does not carry the same gravitas as a good-sized post-diligence commitment.

During fundraising, the majority of fund managers must overcome information gaps between them and the broad LP universe. The manager's processes, unique position, projections, conviction in its strategy, long-term outlook, and grit are examples of a few things that the GP knows about itself but need to be broadcasted appealingly to attract investors. This is not an easy task as can be evidenced by longer fundraising cycles. Unrealized returns, personnel turnover, uneven returns from fund to fund, a lack of track record, strategy shifts, fund size adjustments, write-offs/write-downs, multiple expansion-laden historical returns, etc. are some of the many aspects that fund managers need to articulately discuss to reduce the GP/LP information gap – the points discussed above should help.

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