PE Wire EU Emerging Managers Summit 2024: Takeaways from the Fundraising Special Roundtable Discussions

On Thursday 14 November 2024 Corvus Group sponsored the PE Wire EU Emerging Managers Summit in London. Co-founders Andrew Brizell and James McCarthy, together with Joe Briggs of BCF (Briggs Capital Formation), hosted two roundtable discussions in the afternoon which focussed on the challenges faced by emerging managers ("**GPs**") looking to raise their first fund, the lessons attendees have learned from successful fundraises in the past and prevailing investor ("**LP**") expectations.

We heard from a range of participants, including emerging sponsors looking to move beyond deal-by-deal work, established managers raising their second (or later) funds, placement agents and other fund advisers. A spectrum of sector specialisms and strategies were also represented, with sectors ranging from biotech to real estate and strategies from classic buyout to fund of funds.

It was interesting to note the commonality of challenges faced by GPs and the broad application of the lessons learned from previous successful fundraises. We very much enjoyed the discussions and we have summarised below what we consider to be the key takeaways from them.

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1. The importance of your team

- LPs expect to be presented with a coherent GP investment team that has worked together in the past, that is stable and that does not run the risk of breaking up.

- There will be a focus on the strength of a GP's investment team, but strong back office, finance, legal and compliance functions will also be relevant. Having all roles covered by permanent hires is not, however, essential and there is an increasing acceptance of fractional/outsourced CFO, GC and CCO solutions.

2. Track record

GPs will be expected to demonstrate the following.

- That they have successfully identified, closed and exited multiple deals before (ideally 3 or more), with prior deals being specific to the strategy they are seeking to raise capital for.

- At least 2.5x net returns for buyout/growth strategies. Prior returns expected for other strategies will vary.

- LPs' views of GP teams who seek the attribution of prior track records from former employers/firms will vary. Some may be receptive and others will not be. If a GP team has worked together in the past, albeit in a different business, LPs may be more receptive to attributed track records. LPs are likely to be less accepting of amalgamated prior track records which are attributable to a range of individuals who have not worked together previously.

3. Building momentum: The significance of securing anchor LPs and deal pipeline

GPs should look to build a sense of momentum behind their capital raise and mitigate blind pool risk. This can be achieved by:

- Securing anchor LPs. Not only will these LPs contribute a significant portion of the fund's overall capital, but their commitment will help to underwrite the GP's credibility.

- Completing a first close as soon as possible.
- Having a good quality and demonstrable deal pipeline.
- Deploying first close capital as soon as possible during the fundraise.

4. GP commitment

LPs will want to see a significant GP commitment. The size of that commitment will vary depending on the individuals involved, but LPs will want the GP commitment to be material for those individuals. GP principals can expect their personal financial positions to come under scrutiny as part of a LP's due diligence process. The actual quantum of the GP commitment is likely to be viewed as a measure of a GP's previous success and a material commitment will be deemed essential to demonstrate a proper alignment of interests between LPs and the GP.

5. Favourable rights for cornerstone and other significant LPs

GPs should be prepared for cornerstone and other material LPs to ask for favourable LP rights as a condition to investing. These rights may include:

- An opportunity for LPs to invest into the GP business. If requested/offered, GPs should carefully consider how to structure the investment and options for exiting LPs in due course.
- Preferable voting/consent rights and "most favoured nation" protection.
- Preferable fee and carry arrangements.
- Advisory board positions.
- Co-investment opportunities.

6. Strategies, differentiation and communicating them effectively

- GPs should triage lists of target LPs to ensure that their strategy and points of differentiation will appeal to the LPs they plan to approach, bearing in mind that a GP's point of differentiation may not be of interest to LPs seeking exposure to particular strategies, sectors and/or geographies and certain opportunities will appeal more to certain types of LP than to others (for example, endowments and fund of fund investors tend to be more open to investing in emerging managers).
- GPs must be able to communicate differentiation effectively. In summary, GPs should:
  - Keep their messaging simple – ideally, a GP should be able to explain how their investment proposition generates value in a single sentence.
  - Present prospective LPs with A++ grade materials. GPs should look to communicate their marketing messages clearly and in a way that more established managers often do not. The communication of differentiation is just as important as the point of differentiation itself. If it is poorly communicated, the significance of the differentiation will be lost.
  - Seek in-person meetings with prospective LPs. Face-to-face interactions are key to building trust and communicating marketing messages and GPs should be prepared to expend the time and effort required to meet prospective LPs in person.
  - A good agent can be a huge asset when engaging in a fundraising exercise, both

from a project management and distribution perspective.

7. Fund and ticket size

GPs should:

- Set a realistic goal for their fundraise (broadly speaking, targets should be set at anticipated average deal size x10 for buyout/growth funds).
- Consider appropriate maximum and minimum ticket sizes, ticket sizes relative to overall fund size and whether these are appropriate to the LPs who they plan to approach.

8. Fund characteristics

GPs should work with their advisers to ensure that they have a sound understanding of where and from whom they are most likely to raise capital, as this will inform their marketing strategy, fund structuring/domicile considerations, costs and timing.

Conclusions

Emerging managers face a range of challenges when seeking to raise capital. However, with a considered approach to the capital raising process and with assistance from experienced advisers, those challenges are far from insurmountable. Corvus Group was established in part to help emerging managers to overcome these challenges. We offer a holistic range of fund services, including outsourced/fractional General Counsel services, a hosted capital raising solution and fund and corporate administration services. As a result, we are ideally positioned to assist emerging managers with the establishment of their management businesses, through the fund raising process and throughout the lifecycle of their funds.

If you would like to speak with us regarding our services or any of the topics raised in this article, please do not hesitate to contact us.

The Corvus Group is an independent provider of administrative and advisory support services to the closed ended funds and asset management industries.

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