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THE CFO GUIDE TO FUNDRAISING

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Under the spotlight

When *pfm* and fund administrator SANNE set out to survey private funds CFOs, we wanted to capture the changing nature of this crucial position. From previous polls, we've noted how the finance chief's job has become more strategic. We also knew that more is being demanded of the finance team from investors. But what, we wondered, was the CFO's role in the fundraising process and how was this evolving?

To find out, the *pfm*/SANNE CFO Survey 2018 polled 100 US-based finance professionals. Almost a third were in the midst of raising a new vehicle, with another third looking to go to market in 2019. The picture that emerges is a clear consensus that CFOs play an important part in fundraising. Just 1 percent never meet LPs during the fundraising process. But while they are adopting more client-facing duties, the private funds CFO remains more of a backroom role. As Aaron Witte, senior investment director at SwanCap Partners, puts it: "Our CFO is sort of in the background but he has to ensure the data is there."

And that, perhaps, is the main takeaway from our survey. In an industry where data are increasingly king, the CFO is the key courtier. Supervising and providing access to the data is, of course, a task that's gained in importance these days, given increased pressure by LPs for more details and the decision by the California Public Employees' Retirement System to begin publishing fund performance data. That has "put the PE CFO in the spotlight," says Jeffrey Hahn, managing director, Americas at SANNE.

The survey covers everything from domicile choice and outsourcing to the challenges in raising a larger fund. The full results are from page 3 and there is a roundtable on page 12 that delves into the changing nature of the private fundraising market.

Elsewhere, we hone in on some of the survey's more significant findings. Victoria Robson looks at how to fundraise in Asia (p. 28) in response to 43 percent of CFOs saying they plan to increase the proportion of Asian investors in the next fundraise. Isobel Markham considers the vital issue of performance and benchmarking (p. 20) and Rob Kotecki looks at how to bulk up the back office when moving into a new strategy (p. 24).

Our keynote interview with SANNE's Fred Steinberg outlines outsourcing trends (p. 22) and Pierre Weimerskirch, a managing director at LIS, a leading Luxembourg-based AIFM, looks at the options for non-EU managers seeking to raise capital in Europe (p. 26).

The fact that one single poll can produce so many discussion points is a tribute to the depth and breadth of this particular survey. A big thanks to the PEI research team and to SANNE for helping makes this happen.

Enjoy the supplement.

Graeme Kerr
Special Projects Editor

Expert view: the CFO role is growing as fund sizes increase

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Out of the shadows

Sharper LP scrutiny is expanding the CFO's remit to include investor-facing roles during fundraising, writes *Victoria Robson*

When a GP goes to market it is all hands on deck as managers raise ever bigger funds and often increasingly specialist vehicles that demand they demonstrate niche expertise. So, as *pfm* and fund administrator SANNE embarked on a survey of private fund CFOs, we sought to gauge exactly how far the role of the most senior financial executive in a private equity firm has extended in response.

The *pfm*/SANNE CFO Survey 2018 polled 100 US-based finance professionals who had fundraising either directly on their plate, or on their minds. More than half worked at firms with assets under management of between $500 million and $5 billion. Almost a third were at GPs in the midst of raising a new vehicle and more than 15 percent said they would approach the market later this year. Another third expected to seek capital in 2019. For those CFOs, there are busy times ahead.

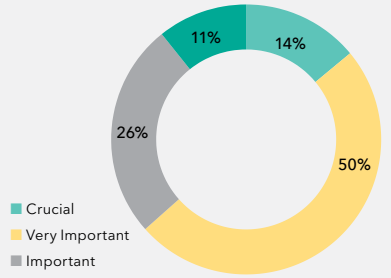
A significant majority of CFOs (63 percent) reported their next flagship vehicle would be bigger than its predecessor. Our cohort was solidly mid-market. About 40 percent had closed their last flagship fund on between $100 million-$500 million, while a quarter had raised $500 million-$1 billion previously.

CFOs agreed that their contribution to the fundraising process is at the very least important if not crucial. Among ways they contribute are by "keeping operations clean, clear and well documented, providing transparent reporting, and ensuring they represent the firm in its best light," one survey respondent said.

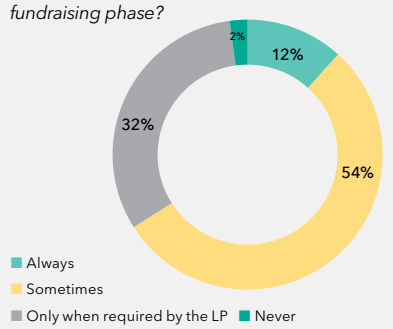
Another highlighted the CFO's access

The role of the CFO

How important do you think the CFO is to the fundraising process?

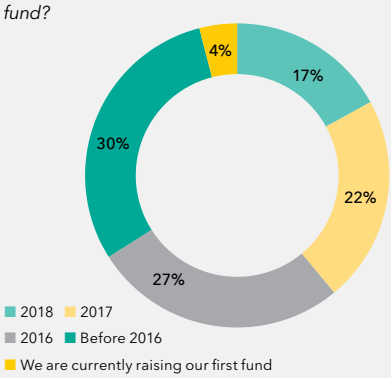


Does the CFO meet investors during the fundraising phase?

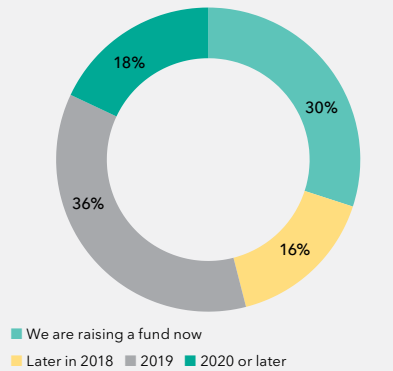


Fundraising plans

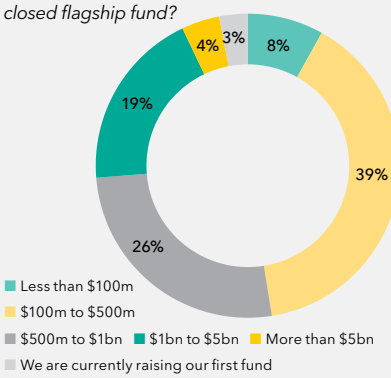
When did your firm close its most recent flagship fund?



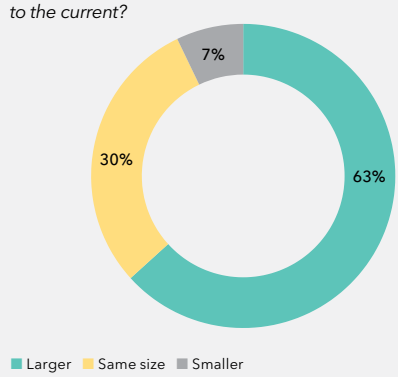
When does your firm plan to launch a new fund?



What is the size of your firm's most recently closed flagship fund?



How large will your firm's next fund be in relation to the current?



The figures may not add up to 100% due to rounding

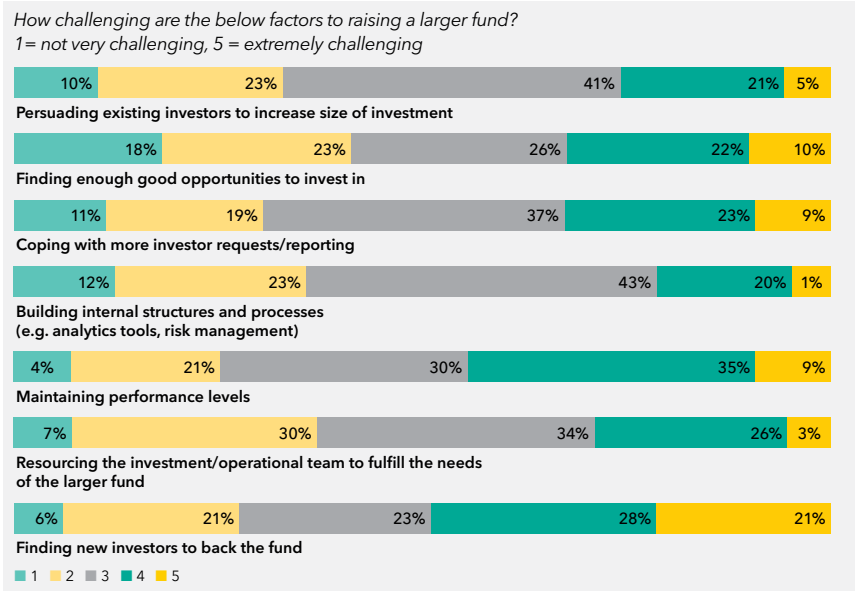
to historic fund and performance data, as well as their ability to satisfy investors and get them comfortable with the firm's reporting and operations as critical aspects of their participation in fundraising.

What is clear is that CFOs are being shoved into the fundraising spotlight as LPs increase their scrutiny of back office functions, and even more so at GPs with which investors seek to establish longer term relationships beyond the fund currently in market. Such is the extent of this shift that New Spring Capital president and COO Jon Schwartz expressed surprise at the survey finding that so few investors asked to meet them.

"Maybe it's a barbell thing, where the large firm's CFO may never meet an LP, or they may not be in meetings for small firms, but I would have expected those two answers [to questions on LPs demanding to see CFOs personally and on a CFO's importance to the process] to be more aligned," Schwartz says.

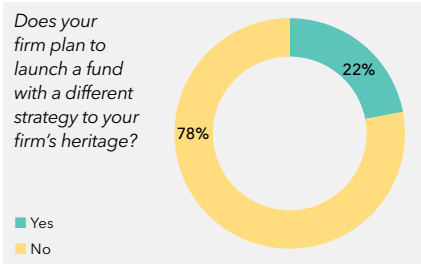
That said, a huge majority of CFOs – 83 percent – reported that LPs "sometimes" ask for an audience, with 13 percent expressing that LPs always demanded a meeting during the due diligence process. A tiny proportion, only 4 percent, said that never happens. And even if a CFO toils away in the background without ever having to take on a client-facing role, the results indicate that investors do want to know they are there and their back office presence is permanent.

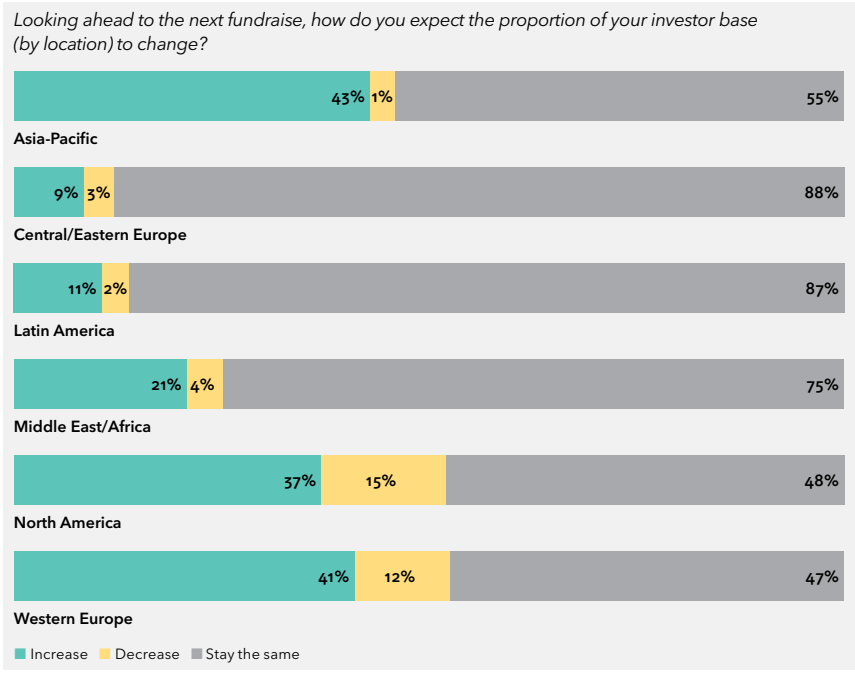
While fundraising is largely about the investment team and its track record, says Jeffrey Hahn, SANNE managing director, alternative assets, Americas, "the CFO often is asked to provide color regarding performance data, and certainly about the workings of the back office," he says, adding, "I



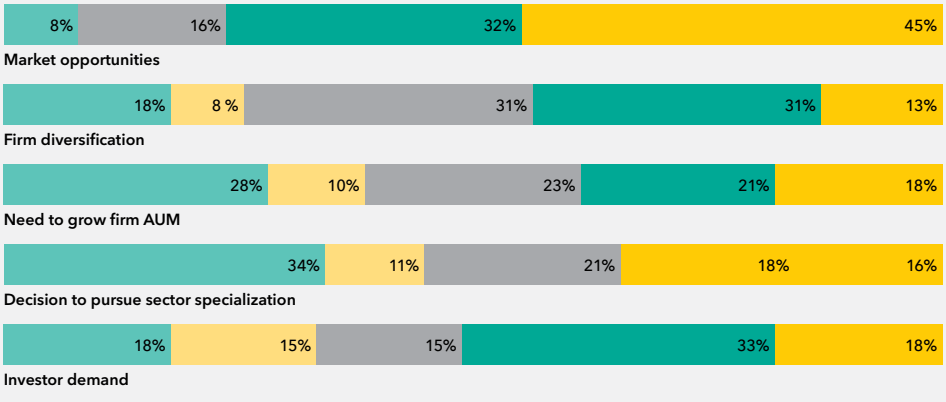
43%

Proportion of firms expecting to increase Asia investor base

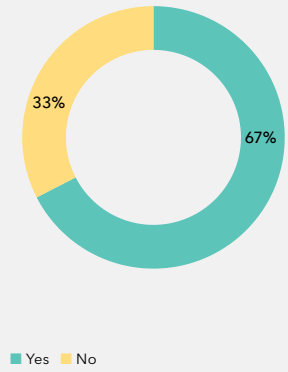




If you plan to launch a new fund with a different strategy, how important were the following factors to your decision? 1 = not important, 5 = crucial

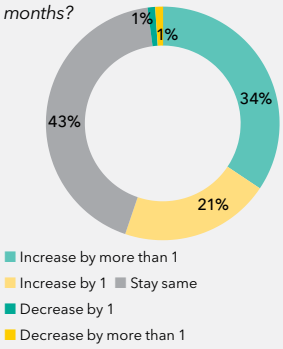


Do you plan to use parallel fund structures for your next fundraise?

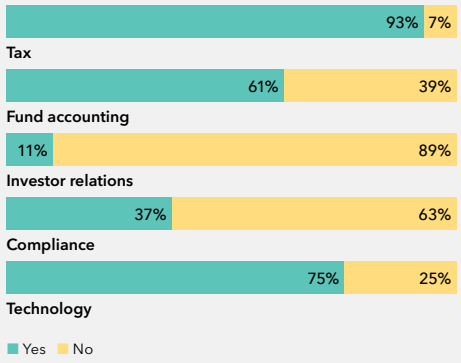


Outsourcing

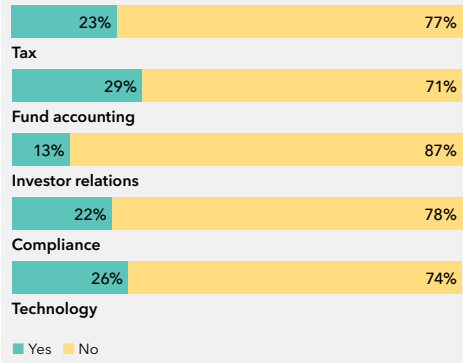
How do you plan to change the numbers of your operations/ back office team over the next 12 months?



Are you currently outsourcing any part of these functions?

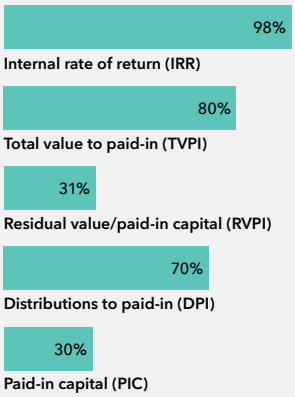


Do you plan to increase the outsourcing of these functions?

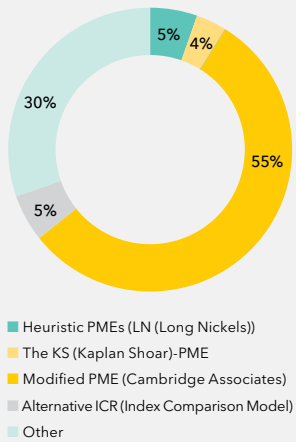


Benchmarks and track record

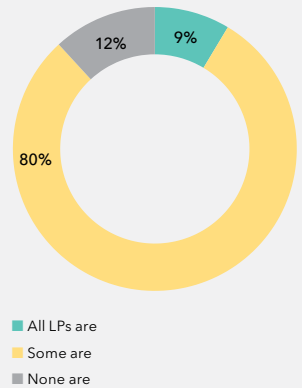
What specific benchmarks do you use to show performance to LPs? (please select all that apply)



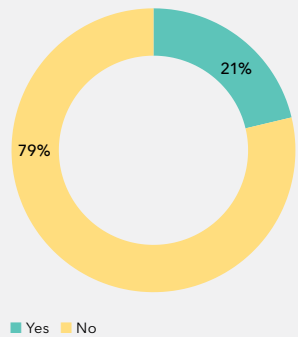
Which PME analysis do you use?



To what extent are LPs demanding more granular performance data for this fund than for the last fund?



Do LP requests follow a standardized template when asking for track record data in the fundraising process?



believe institutional investors want assurances that the technology, process and control environments are sound."

In this, the CFO is central to ensuring the firm meets LP reporting expectations, which are high and contribute to the overall levels of service investors demand.

"Larger, more sophisticated LPs are going to have higher expectations and may look at reporting standards as an essential part of their participation in a fund," says SANNE managing director Fred Steinburg, who is responsible for the firm's day-to-day operations in New York and Belgrade. "The bigger the LP, or the commitment, the more questions and information they'll demand."

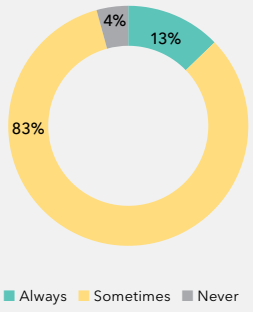
So does that mean the reporting load will continue to get heavier? LPs are asking for more data, including more detail and cashflow for underlying deals but "are typically satisfied (for now)" with performance data, said one respondent. However, the prevailing absence of standardized reporting templates for track record data during fundraising still means CFOs must address each request individually. After all, most CFOs believe offering improved reporting gives them a competitive advantage when promoting their fund to investors.

Mounting paperwork

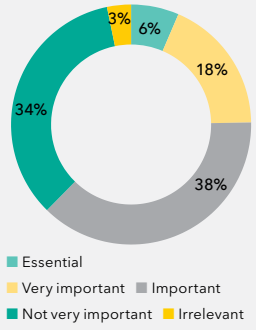
No doubt, for CFOs the paperwork is mounting. "The DDQs [due diligence questionnaires] used to be a couple of pages, now they are 20, 30 or 40 pages," says Scott Norby, executive director, private credit and equity, at Morgan Stanley. "Then the spreadsheets that you're being asked to fill out, which often is a significant burden on the internal teams and the external teams, are incredible. It is a lot more work and it's adding a significant level of expense from true dollars and a time perspective."

To ease the strain and boost efficiency,

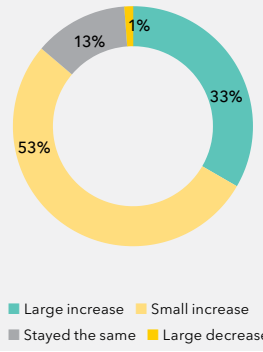
To what extent do LPs demand to see CFOs personally during the due diligence process?



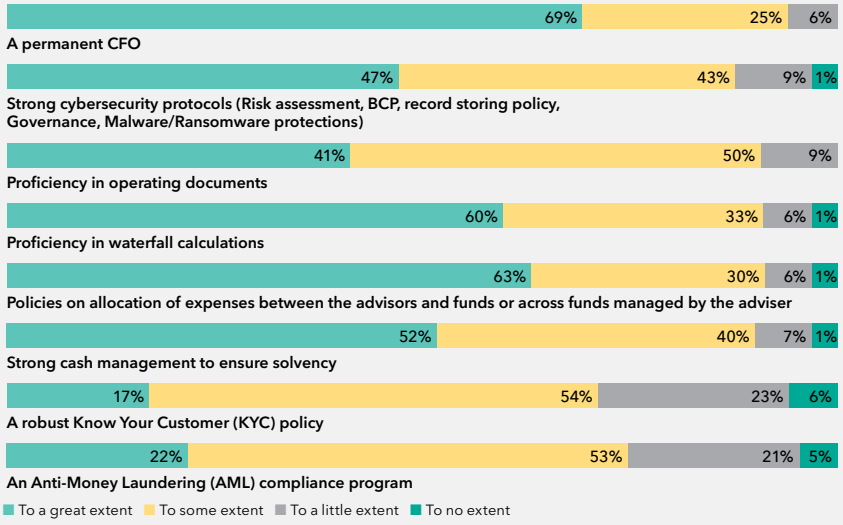
How important is the GP's ability to offer better reporting than their competitors to investors' decision to invest?



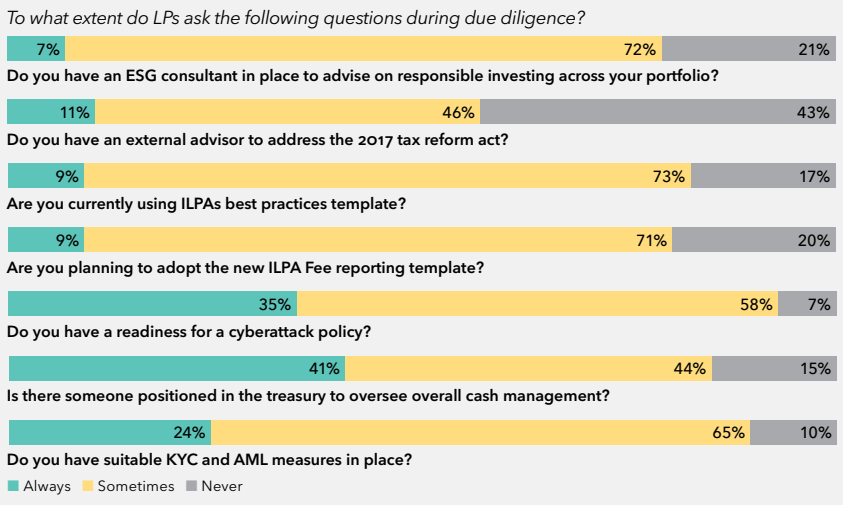
How has LP interest in the back office functions changed over the past three years?



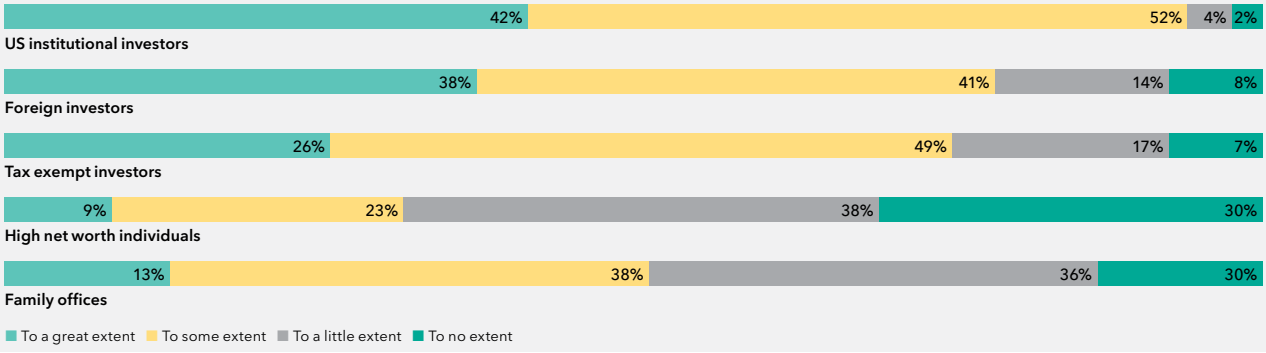
To what extent are the following back office functions considered "must-haves" by investors?



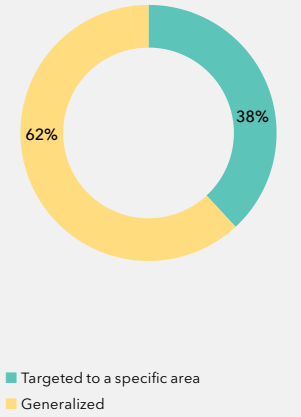
To what extent do LPs ask the following questions during due diligence?



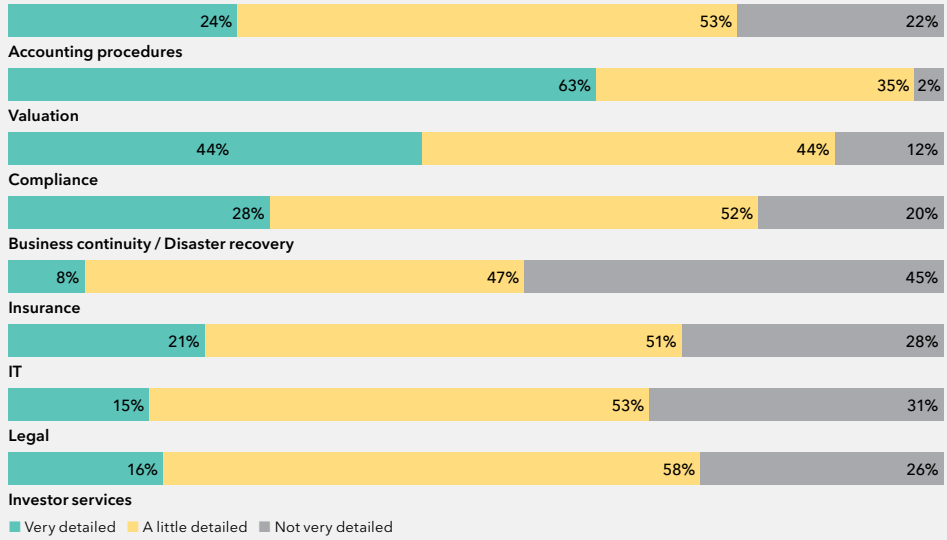
Over the last 3 years, to what extent have the following investors conducted greater due diligence, thus increasing demand on the back office?



How has the greater due diligence been targeted?

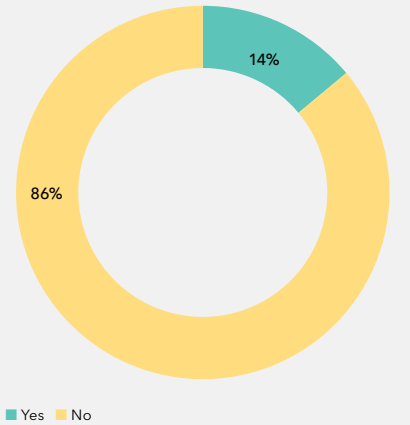


How detailed are LPs' questions of the following back office functions during due diligence?

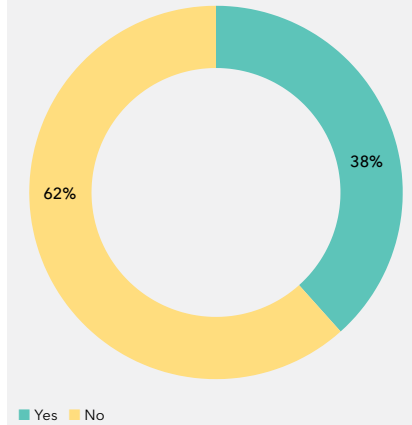


Domiciles and management structures

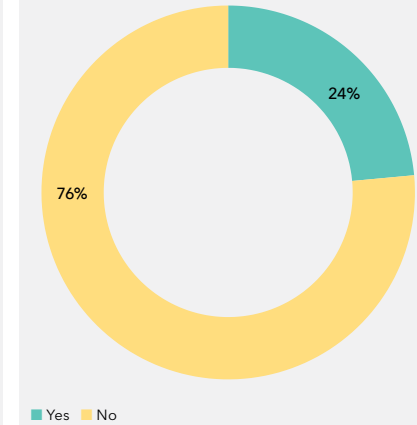
Do you have a management company located outside of the United States?



With respect to domiciliation, are you currently marketing in Europe?



Are you presently outsourcing AIFM via a European management company?



one CFO said his firm is "looking to implement AI [artificial intelligence] and automation on recurring tasks as much as possible, including the fundraising cycles i.e. data room access, subscription material process, notices to prospects, etc."

The same respondent noted that the most challenging elements of the fundraising process confronting CFOs included planning for different investor types and accommodating them based on their domicile, regulatory issues and tax sensitivities, as well as ensuring there is enough flexibility to allow for streamlined administration of the fund being structured.

Find a home

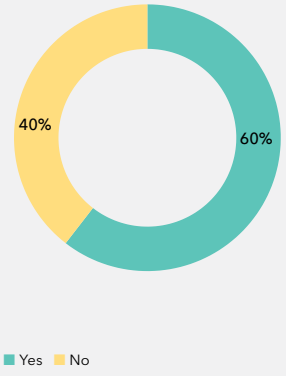
For any CFO, picking the right jurisdiction for a new fund is critical. In making the selection, the respondent said he looks for flexible regulations, little overhead and a domicile that is easy for investors to understand. Another survey respondent cited investor acceptance first, followed by a clear legal regime, a "good community of similar funds" and "appropriate costs" as qualities he looked for in a domicile.

With these considerations in mind, a significant but unsurprising proportion of survey respondents reported that their next vehicle would be domiciled in Delaware or the Cayman Islands.

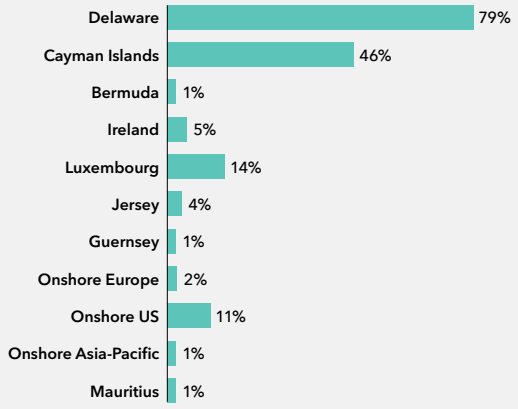
Tax, technology and fund accounting are core functions CFOs said they typically handed over to third party service providers. "I think a lot of the need and trend towards outsourcing has to do with the increasing complexity and increasing amount of responsibilities CFOs now face," says Blinn Cirella, CFO at Saw Mill Capital.

Certainly, as our survey shows, for the private equity CFO today, these responsibilities include engaging in an expanding range of tasks that offer critical support to a successful fundraising. ■

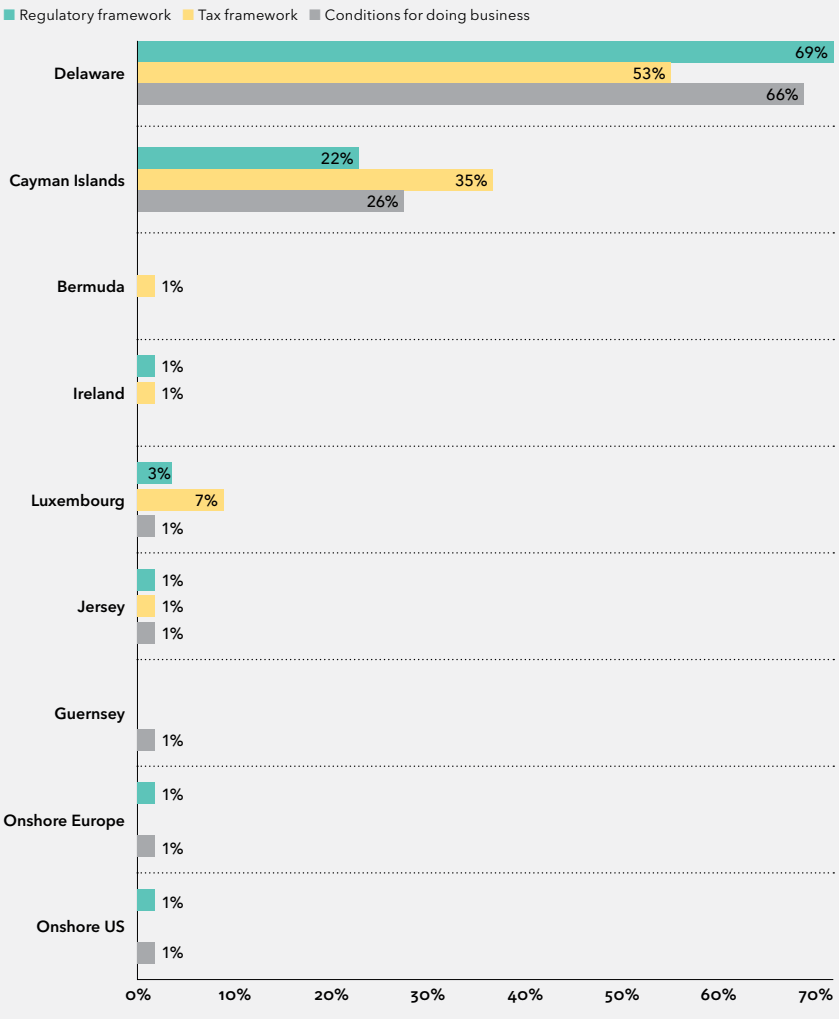
Would you consider outsourcing your AIFM?



Which of the following domiciles will you use for your next private equity fund? (Please select all that apply)



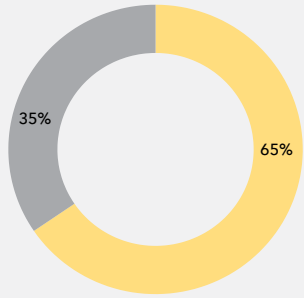
Which of the following domiciles offers the best...:



The GP commitment

4.85%
Average size of last fund's GP commitment

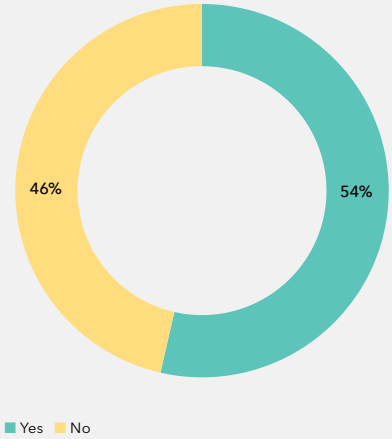
How do you finance the GP commitment?



3.06%
Average size of next fund's GP commitment

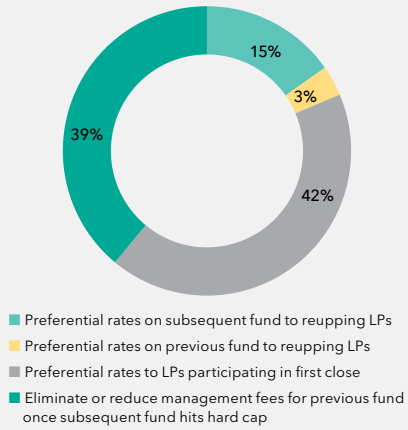
Management fees

Has your firm experienced investor pressure to reduce management fees?

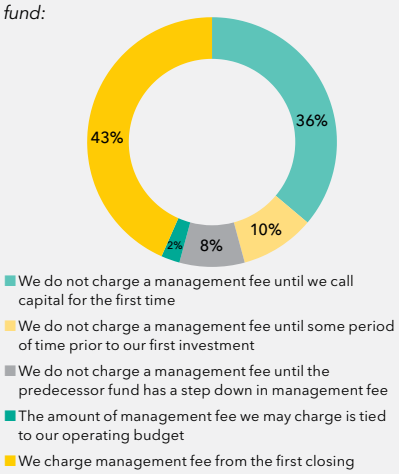


When asked, how do you justify your level of management fees to investors? Please select all that apply

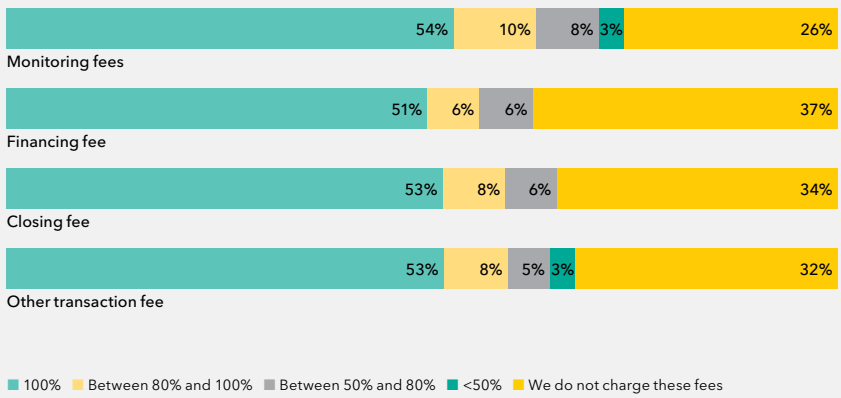
How do management fees on successor funds relate to a previous fund?



Please state which is true of your most recent fund:



What percentage of your transaction, monitoring or any type of investment related fee received by an affiliated entity is offset against your management fees?



Methodology

What is the the pfm/SANNE CFO Survey 2018?

PEI's Research & Analytics team surveyed 100 US private fund CFOs in July and August 2018. We wanted to know how the role of the CFO was changing and whether they were becoming more involved in the fundraising process. We targeted CFOs but if they were unavailable, we asked for responses from other professionals, including CCOs, COOs and controllers, provided they were aware of their firm's practices.

The survey is US-centred, and so we surveyed firms from every region across the country. The bulk of respondents have assets under management between $500 million and $5 billion.

How was the survey conducted?

Emails were sent to the most appropriate professionals at all the leading private fund management firms at the US. We asked respondents to fill out a short questionnaire, the results of which were collated and analysed by PEI's team of research analysts.

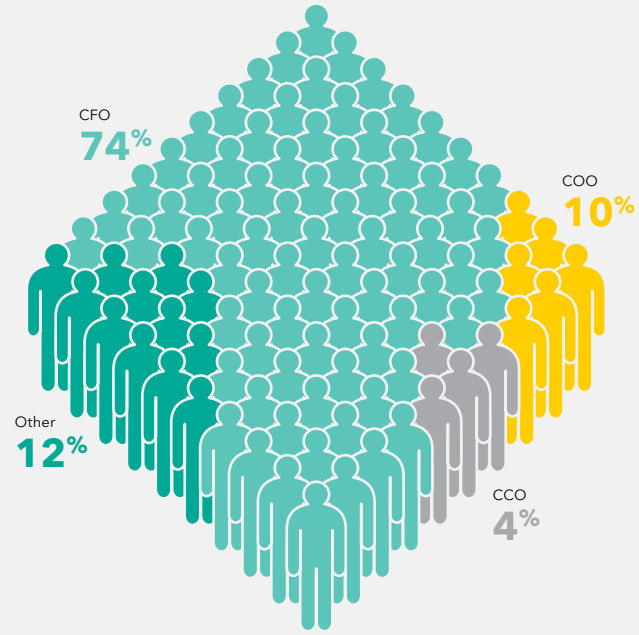
What about confidentiality?

The survey is entirely confidential. No names of the individuals or the firms that responded are revealed.

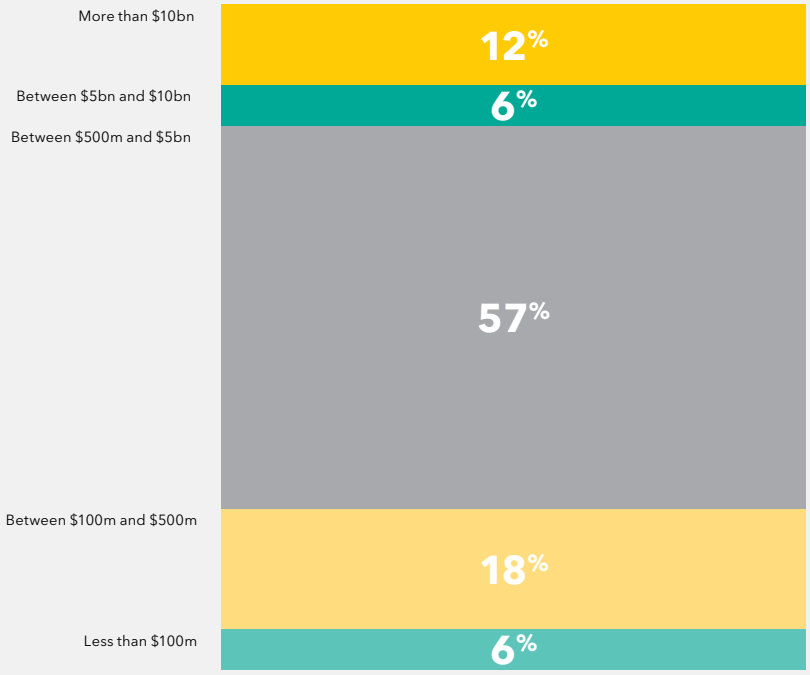
Why alternatives and not just private equity?

The emphasis is on private equity but firms managing mezzanine debt, real estate, and infrastructure funds have been included too. Many of the challenges facing private equity firms are just as relevant to managers of other closed-ended alternative asset classes funds too. The survey reflects the full perspective of the US private fund management community. ■

What is your primary job title?



What is the size of your firm in AUM?

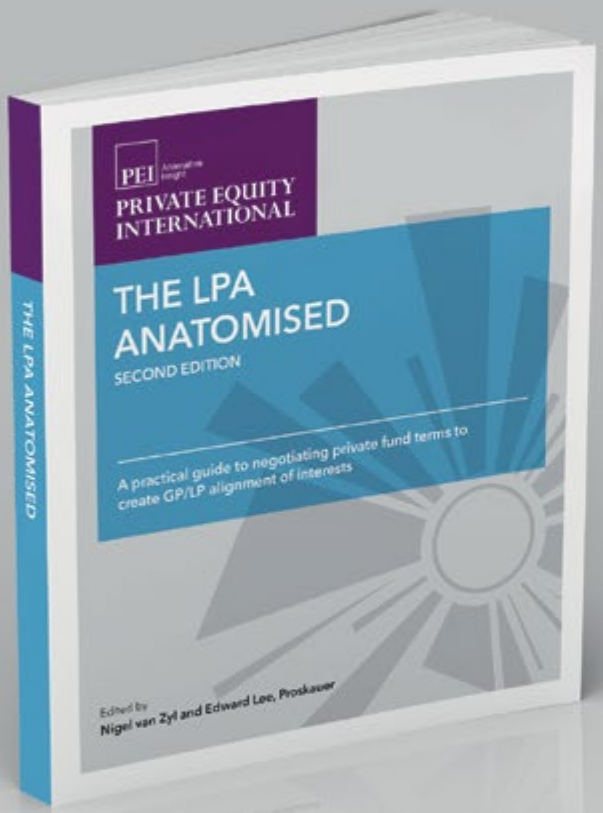


PEI Alternative Insight

PRIVATE EQUITY INTERNATIONAL

THE LPA ANATOMISED, SECOND EDITION

Your practical guide to negotiating private fund terms and creating GP/LP alignment



Edited by Nigel van Zyl and Edward Lee of Proskauer, this fully updated edition features the latest insight and views of leading lawyers and industry experts on how GP/LP alignment is created, how the long-term relationship between them is fostered though the LPA, and how recent regulation and litigation are influencing LPA terms.

CONTENT HIGHLIGHTS:

- A to Z of LPA terms and how to negotiate them effectively.
- Is it time for a more flexible model for GP/LP alignment?
- The role of litigation and regulation in the evolution of private fund partnership agreements.
- Case study: How to handle a challenging LPA negotiation.
- A comparison of LPAs in the US, Europe and Asia.
- How to structure and negotiate separately managed accounts.
- Issues GPs must consider when approaching LPs to discuss revising fund terms.

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Fundraising tales

Five private equity experts gather to discuss the private fundraising market, how it has evolved in the past 10 years, the increasing role of the CFO and the consequences of the abundance of money for the industry

By DOMINIC DIONGSON and MARINE COLE

photography by DOUGLAS HOLT

From left: **Aaron Witte, Scott Norby, Blinn Cirella, Fred Steinberg, Jeffrey Hahn**

The fundraising environment has changed dramatically over the last decade. Fund sizes have increased sharply, investors have placed more stress on due diligence and CFOs have seen a marked rise in their responsibilities.

To discuss this changing market, *pfm* gathered five private equity experts in late September near the Rockefeller Center in New York. They were Blinn Cirella, CFO at Saw Mill Capital; Jeffrey Hahn, managing director, Americas, at SANNE; Scott Norby, executive director, private credit and equity, at Morgan Stanley; Fred Steinberg, managing director, New York, at SANNE; and Aaron Witte, senior investment director at SwanCap Partners.

At the time of the roundtable, confidence in US markets was still strong and pro-business policies from the Trump administration, including tax reform, was boosting the economy. Add to that low yields in most asset classes, it's no wonder that the private equity market has attracted so much capital.

"There are a lot of funds in the market," says SwanCap's Witte. "There's a lot of fundraising going on."

Private equity funds globally held final closes on $259 billion in the first three quarters of 2018, following a record $455.4 billion raised the previous year and $385.2 billion in 2016, according to PEI data. These figures are up sharply from 2010 when funds closed on about $150 billion.

Uneasiness

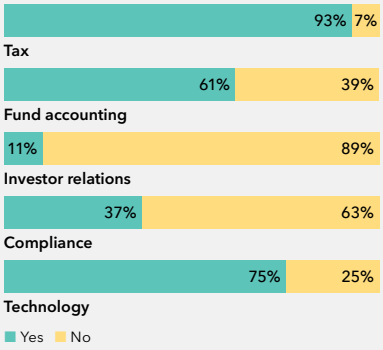
Witte says in the current fundraising environment, many first-time funds have been able to raise money. "There are a lot of emerging managers from larger groups with internal track records where they've had successes," he says. "They are able to

"With the increased sophistication of investors, we've seen the CFO take on a larger role. The CFO is the one who takes the calls"

Fred Steinberg

Going external

Are you currently outsourcing any part of these functions?



Source: *pfm*/SANNE CFO Survey 2018

start their own firms. There are many of those these days." And funds are getting bigger across the board. According to the *pfm*/SANNE CFO Survey 2018, 63 percent of CFOs expect their next fund will be larger, while only 7 percent said it will be smaller.

But with sky-high valuations and a fear of overpaying in what increasingly looks like the top of the economic cycle, a sense of uneasiness is growing in the private equity industry.

"We don't go into a meeting with an investor without discussing the overhang of capital that sits in all the funds and what's going to be the impact of that," says Morgan Stanley's Norby. "Strong GPs have raised a series of funds quickly. I suspect it's going to be harder to do that in the future apart from one or two GPs with strong brands. I think you're going to have to prove yourself more adept at growing your business both operationally and strategically and prove it out over time in order to convince investors you're going to find a way to survive and generate alpha in this pricing environment."

Cirella says too much money in private equity can lead to dire outcomes.

"It can slow down your investment pace because you're nervous and you're not going to put in a lot of money," she says. "You're not going to pay 11x for something you're not comfortable with. It can also elongate your investment cycle so you may have to go back and extend your investment period."

She adds that firms also run the risk of poor performance because they overpaid. "You don't know how long a cycle is going to last, so you're buying in an up market and you could be forced to sell in a down market," she says.

More demands

Despite what may seem like an easy fundraising environment, the actual process of launching a new vehicle all the way to holding a final close has turned more cumbersome for PE firms.

This is due in part to limited partners who have become more knowledgeable about private equity and who are placing a greater importance on the due diligence process during fundraising.

According to the *pfm*/SANNE CFO

Survey 2018, nearly 60 percent of CFOs say that greater due diligence by investors has been generalized as opposed to targeted to a specific area.

"We've definitely seen more time spent on due diligence by prospective investors," says Steinberg.

"As a result, I know that our teams have spent much more time helping clients prepare for their next fundraise and deal with investors' requests. There's a lot more investing by pension plans, institutions and sovereign wealth funds, and these are the investors asking the most questions given the size of their commitments. Also the people who invest in or from non-US jurisdictions want to ensure their capital is deployed in the most tax optimal way possible, which has led to an increased focus on structuring."

Prospective investors need to address such concerns during the due diligence process as it is their opportunity to ensure that the right legal entity structures are in place.

Long gone are the days when LPs asked solely about fund returns. They now want to know how a firm's back office may be organized, what it focuses on, what accounting system it is using and whether they can rely on a CFO to understand all tax and compliance issues among many issues.

These questions are often part of the due diligence questionnaires, which, as a result, have become much longer.

"The DDQs used to be a couple of pages, now they are 20, 30 or 40 pages," says Norby. "Then the spreadsheets that you're being asked to fill out, which often are a significant burden on the internal teams and the external teams, are incredible. It is a lot more work and it's adding a significant level of expense from true dollars and a time perspective."

As an LP, Witte agrees that investors

AROUND THE TABLE

Blinn Cirella is CFO at Saw Mill Capital, which invests in lower mid-market companies. She manages its financial administration and its back office, including LP reporting, accounting, and audit and tax preparation. She previously served as director at Bisys Private Equity Services.

Jeffrey Hahn is managing director, Americas at SANNE. He joined SANNE in 2016 following the acquisition of FLSV Fund Administration Services, where he was partner and CEO.

Scott Norby is executive director, private credit and equity at Morgan Stanley. Norby focuses on investor relations and product development for Morgan Stanley's private equity and private debt funds.

Fred Steinberg is managing director, New York at SANNE. Steinberg is responsible for the day-to-day operations of its New York and Belgrade offices. He joined in 2017 from Morgan Stanley where he oversaw closed-ended alternative asset funds.

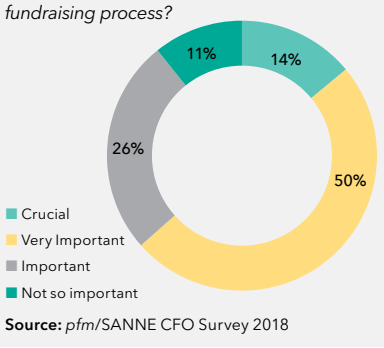
Aaron Witte is senior investment director at SwanCap Partners, an independent investment manager. Witte leads the firm's North American investment activities, where he focuses on equity co-investments, secondaries fund investments and primary fund investments.

"We spend a lot of time on the data, on the analytics. We want to understand deal attribution"

Aaron Witte

Vital role

How important do you think the CFO is to the fundraising process?



Source: *pfm*/SANNE CFO Survey 2018

are partly responsible for that dynamic.

"We're pretty tough and thorough during due diligence, both on the legal side and the analytical side, and the side letter requests," he says. "We spend a lot of time on the data, on the analytics. We want to understand deal attribution."

In turn, it has increased the role of CFOs and their back office.

"With the increased sophistication of investors, we've seen the CFO take on a larger role," Steinberg says. "The CFO is the one who takes the calls."

LPs have been paying much closer attention to the way private equity firms function and, in particular, to the fundraising process. That has led the CFO role to gain in importance.

"To me this goes back to 2012 when we all had to register with the [Securities and Exchange Commission] and there was so much bad press for a series of years about bad actors doing things they should never have done," says Cirella.

"I think that got everybody a little bit excited and focused."

Hahn thinks the Bernie Madoff scandal also created an inflection point for the fund administration business as investors realized the importance of internal controls and segregation of duties. "That woke people up to pay attention to the back office with an immediate impact on the CFO's landscape," he says.

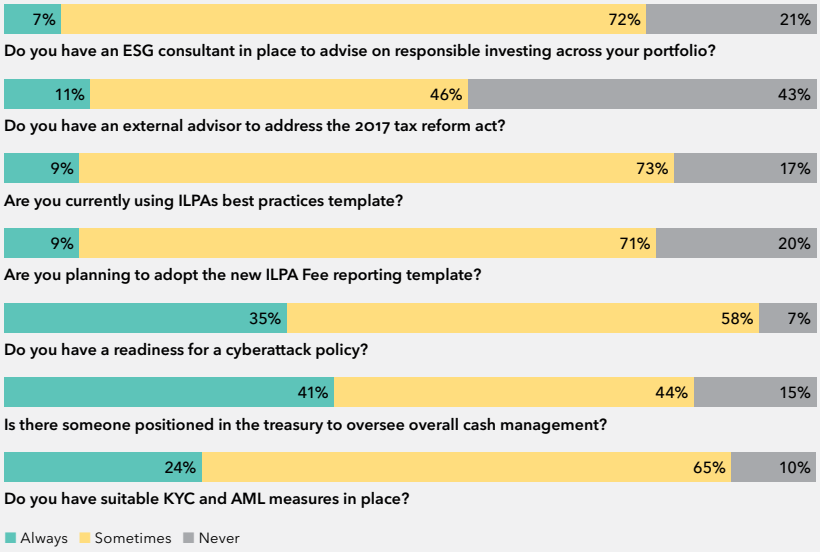
Meanwhile, "the move toward greater transparency, I think, was partly led by lawmakers and partly by [the California Public Employees' Retirement System], who began publishing fund performance data," he adds.

"That raised public awareness of how private equity works, what management fees are, and what carried interest is. This has brought a lot of attention to the financial aspects of the PE

The figures may not add up to 100% due to rounding

Investor concerns

To what extent do LPs ask the following questions during due diligence?



Source: *pfm*/SANNE CFO Survey 2018

business and put the PE CFO in the spotlight."

Although the CFO is not likely to be a constant presence with investors during fundraising, he or she typically is the point person for all questions related to the back office and more generally data and analytics.

Asked to what extent LPs demand to see CFOs personally during the due diligence process, 83 percent said they sometimes do, while 13 percent said they always do, according to our CFO survey.

"Fundraising, in my view is mostly about the investment team and its track record," says Hahn.

"After that, I believe institutional investors want assurances that the technology, process and control environments are sound. The CFO often is asked to provide color regarding

The figures may not add up to 100% due to rounding

> **"We don't go into a meeting with an investor without discussing the overhang of capital that sits in all the funds and what's going to be the impact of that"**
>
> **Scott Norby**

performance data, and certainly about the workings of the back office."

"Our CFO is sort of in the background but he has to ensure the data is there," says Witte. "He's not on the frontlines of the fundraising process." From an LP perspective, he says that SwanCap wants to make sure it knows the CFO of a GP it plans to invest with.

Greater costs

The greater oversight and transparency has made this a more complex world for CFOs to navigate. Costs are on the rise, with the back office staff count increasing as responsibilities grow. With consultants and service providers often paid for by the fund, it can make more sense to outsource some of the most complex and technical responsibilities.

A vast majority of respondents to the survey, 93 percent, said that they are currently outsourcing parts of their tax functions, while 75 percent said they outsource technology and 61 percent outsource some fund accounting functions.

"We didn't necessarily support all of our clients since their first fund because they started with a smaller fund that they handled in-house," explains Steinberg.

"When the next fund doubles in the size, that's when they realize they need help. We have many clients where we came in at Fund II. Now they are on Fund IV, and their back office has remained relatively consistent in size over the years while our back office support has grown commensurately with their number of funds. This way they really are outsourcing to access our platform and our expertise."

"I think a lot of the need and trend towards outsourcing has to do with the increasing complexity and increasing amount of responsibilities CFOs now face," says Cirella. "I think that in 10 years, the private equity CFO is going to be more like a project manager."

CFOs will eventually have several consultants or service providers to help them manage everything from LP reporting to compliance. CFOs will have to manage an HR consultant, IT consultant, valuation consultant, tax advisor, audit firm, compliance consultant, fund administrator, a fund attorney, tax attorney, management company attorney, and the list goes on. As the roundtable participants all agreed: CFOs can't possibly go deep enough and be an expert at all these things.

This is especially true when a firm ventures into new strategies. "We constantly evaluate new strategies," says Norby. "Not just in private equity, also in real

> **"The CFO often is asked to provide color regarding performance data, and certainly about the workings of the back office"**
>
> **Jeffrey Hahn**

> **"I think that in 10 years, the private equity CFO is going to be more like a project manager"**
>
> **Blinn Cirella**

assets, and long-only funds. We raised a brand new opportunistic capital fund, that is focused on both credit and equity opportunities that flow from the investment bank. We also launched a senior loan fund. Both of those brought a whole new set of issues for our CFO function at Morgan Stanley. We constantly hire experts around the world that help us decide how to do execute."

"I think investors are looking for specialized investment models," says Hahn. "Rather than investing in a traditional global PE fund, I believe investors prefer building their portfolios with country specific and product specific fund mandates. It is therefore on the fund managers to differentiate themselves and show expertise in a particular niche."

Outsourcing also has a cost, and GPs need to determine what model is the most cost efficient, while also taking into account the level of expertise they will gain through outsourcing as opposed to doing it in-house. One area where firms have found invaluable outsourced expertise is with placement agents. The roundtable participants agree that placement agencies bring real added value to the fundraising process thanks to their relationships, the introductions they can make and the doors they can open to new markets.

But are they always worth the price tag? "We did at one point discuss engaging a top off agent if we couldn't reach our target fund size, but it is just so costly," Cirella says. "At a time when you're being pressed to bring down your management fees and increase your offset fees, it can be difficult to manage. Placement fees reduce your management fees and if you're a first-time fund this is a big hit to your cashflow."

Fees in general, and particularly management fee and fee offsets, have become a big topic of discussion as GPs try to remain competitive. This is especially true for funds of funds. "We try to justify a fee that allows us to stay competitive in the market," Witte says of the management fee. "We're fee on top of fees. We have a layer of fees we have to contend with. We have to justify why it makes sense. It does make sense because we are providing access to an alternative asset class and to fund managers that they otherwise wouldn't have access to and try to go above and beyond with high-touch service offerings."

A turn in the economic cycle may release some pressure in the private equity market related to too much capital flowing and valuations skyrocketing. But one thing is sure: a downturn will not change the fact that private equity has become a more transparent asset class where LPs are in constant need of explanations and justifications for their investments with particular GPs.

The private equity CFO's new world order is here to stay. ■

Range of measures: the key question for LPs is 'what do you want to know?'

Can someone tell me how I'm doing?

Unlike in the publicly-traded world of securities, there's no one agreed-upon way to measure performance in private investments, writes *Isobel Markham*

Benchmarking private equity is notoriously challenging. Unlike in the world of public equities, there is no single widely-embraced performance measure that is easily calculated. As a result, each investor must come up with their own way of answering the question: how well is my private equity portfolio performing?

What's clear is that investors are more interested than ever before in answering that question. Eighty percent of respondents to *pfm*/SANNE CFO Survey 2018 indicated that some of their LPs are demanding more granular performance data for their current fund than for the last, with 9 percent indicating that all LPs are asking for this information.

> **"Focusing too much on the performance of the average private equity fund in the first five or six years can actually be an enormous waste of time"**
>
> **Rich Carson**

The primary unit used throughout alternative assets is internal rate of return. Our survey found 98 percent of fund managers use IRR to show performance to LPs. But even that simple unit is not that simple.

"If you made a really small investment that did really well early on, and then you made big investments that didn't do well later, you might still show a very good IRR even though you really have destroyed value," says Steven Kaplan, a professor of entrepreneurship and finance at The University of Chicago Booth School of Business and the co-creator of the Kaplan-Schoar Public Market Equivalent (PME).

This IRR deficiency is somewhat counteracted by the money multiple these deals deliver. Of our respondents, 80 percent use total value to paid-in (TVPI) to report this to investors. A large proportion – 70 percent – use distributions to paid-in (DPI), and roughly 30 percent each use residual value to paid-in (RVPI) and paid-in capital (PIC).

Once you have these important figures, you need something with which to compare them. The most important question when it comes to choosing a benchmark is: what do you want to know?

One way is to see whether your investment portfolio is outperforming public markets, and by how much. Here, again, the outcome depends on which index you choose. Data from Hamilton Lane show that on a 20-year, 10-year and three-year basis, private equity has outperformed the MSCI World Index – a broad global equity index – by more than 300 basis points. But if you choose the S&P 500, while the outperformance is still there, it's not such a rosy picture.

"The S&P 500 has been the single

greatest thing you could have invested in over [the last 10 years]. For those that are using the S&P, you'll see private markets are still outperforming, but not by so much," Hamilton Lane's head of investments Brian Gildea said during a recent presentation of the firm's data. "So, you get the question of: 'is it worth the time and the energy and the fee structure to invest in the asset class if it's not outperforming the public markets?'"

Investors also want to know whether, within private equity, they picked the right funds. This is where indexes such as the State Street Private Equity Index or the Cambridge Associates Private Equity Index come in. These allow investors to compare the performance of individual funds to those in a similar strategy, geography and size range, as well as their whole portfolios with the rest of the private equity fund universe.

Public market equivalents are a "bridge approach" which combines "both public equity realities with private investment realities," evaluating what the returns for the investor would have been if the capital they had invested in private investments had been invested in public markets instead, explains Rich Carson, a senior director in Cambridge Associates' private investments research group.

"You take the cashflows of your portfolio (all the contributions and the distributions) and the net asset values and the timings of all those cash flows, and you say: 'if I had invested those same contributions in a public alternative, would I have done better or worse?'" he says.

This approach makes sense because the allocation to private investments "almost always" comes out of the public equities capital pool, Carson says.

"So you are asking yourself: 'Was that a smart move, or would I have been better off leaving that money in the public markets?'"

When it comes to public market equivalents, the majority of survey respondents – 55 percent – are using Cambridge Associate's Modified PME, with a handful using the Long Nickels PME, the Kaplan-Schoar PME and the Alternative Index Comparison Model.

In it for the long haul

The one message that came across loud and clear from Kaplan and Carson is not to pay too much heed to short-term figures.

"You want to wait until the fund is two or three years old before the benchmarking really makes a whole lot of sense," Kaplan says.

Carson points to some Cambridge Associates research that tracked how each one of the approximately 7,000 funds the firm has in its database moved through the four different performance quartiles over time. The research found that more than 80 percent of funds moved through at least three performance quartiles over their life.

"It took about six to seven years on average for any given private equity fund to quit moving around between performance quartiles and settle in where it actually ended up in terms of performance," he says.

"That illustrates why focusing too much on the performance of the average private equity fund in the first five or six years can actually be an enormous waste of time. If you think about that in the context of an entire portfolio of private investments, what happens in a single year is oftentimes not at all meaningful or helpful or insightful into what the long-term prospect of that portfolio's going to be."

In fact, Cambridge is increasingly recommending to clients that they separate their portfolio into funds older than five years and those younger and look at the performance separately.

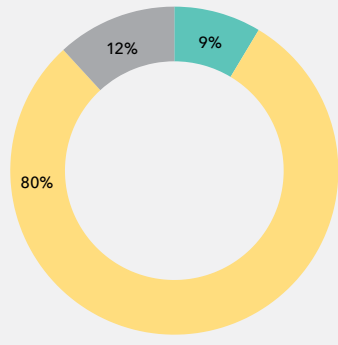
"If you're starting to see that [seasoned] group underperform the benchmark, that's a reason to get a lot more worried and have lots of investment committee discussions and really dig in and grill the managers."

Kaplan says his benchmark will not tell investors how they've performed this year, but instead indicates how their programs have performed over time versus the public markets.

"You're better off looking over a longer period of time and doing a very careful match of how you invested versus what happened in the stock market over that period, because that, for me, is the number one thing I care about if I'm an LP. Was this worth doing? Did I beat the public markets? Because if I didn't, I've gone through a lot of hard work and illiquidity to do this, and for what?" ■

Greater detail

To what extent are LPs demanding more granular performance data for this fund than for the last fund?



Source: *pfm*/SANNE CFO Survey 2018

The figures may not add up to 100% due to rounding

The credibility premium

As the industry grows more comfortable outsourcing back office functions, we sat down with SANNE's *Fred Steinberg* to discuss what's driving the trend, and why LPs appreciate the independence that fund administrators provide

The alternative assets industry may be booming, but that hasn't made the business any simpler. The complexity of both the products and the regulations has given rise to a boom among service providers pitching their services to allow GPs to focus on what they do best: investing. Apparently, plenty of firms like that pitch.

In the *pfm*/SANNE CFO Survey 2018, over half of CFOs reported outsourcing fund accounting (61 percent) and a solid majority outsourcing technology (75 percent), with a little over a third (37 percent) outsourcing compliance. Going forward, it seems most of those not outsourcing admitted planning to outsource technology (26 percent), fund accounting (29 percent) or compliance (22 percent).

Who wouldn't want to delegate more of these headaches to someone else? But as Fred Steinberg of the fund administrator SANNE told us, the appeal goes beyond workload and speaks to the difficulty in managing the operational side of alternative asset firms today, and the increasing demands of investors and regulators. With over 30 years in the industry, Steinberg, managing director, New York, has been both the client and the service provider as fund managers learned to stop worrying and start outsourcing.

Steinberg: technology is a crucial piece in the jigsaw

> **"We live in a post-Madoff world where there isn't the same level of trust between fund managers and investors"**

Q From your perspective, what's the level of outsourcing out there?

It varies based upon the service. Traditionally, tax always has been outsourced. But in the last decade, more firms are outsourcing fund accounting and administration. As firms launched funds with various products in multiple geographies, it became more challenging for the back office to keep up. They saw the value in an outside platform with a pre-existing infrastructure to tackle that growth.

Technology is a large part of the equation. GPs might have started with Microsoft Excel and eventually migrated to a more advanced technology solution, but it became difficult for in-house staff to stay up to date with the latest advancements. Unless they had an internal expert dedicated to that role, it's a hassle. Most times, when we sit down with new clients, they're using their technology in a very elementary way. They appreciate the expertise in both administration and technology that comes with a service provider that focuses on these disciplines.

It varies by asset class as well. Real estate is relatively new to outsourcing, but private equity has certainly embraced it for accounting, fund administration and technology. Going forward, I expect more GPs will look for compliance services. There are KYC and AML requirements around the world, and as firms move into new geographies, that regulatory exposure multiplies.

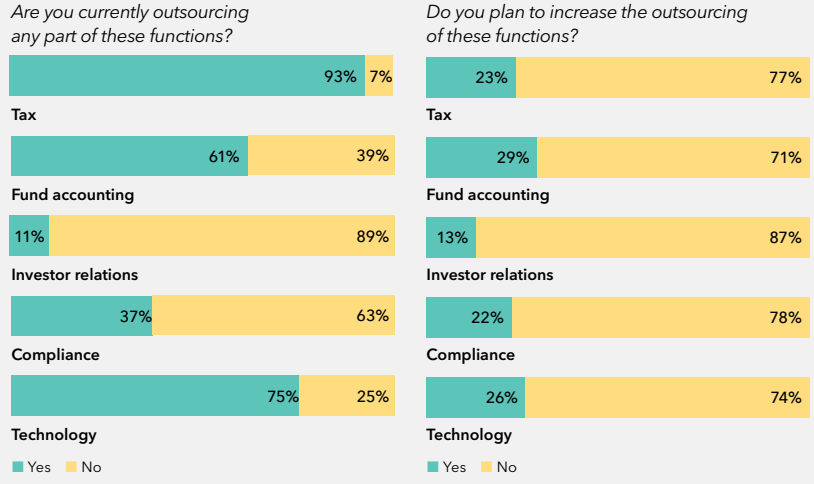
While these regulatory requirements are crucial, they are not a daily task. They only need to be addressed periodically, but with speed and competence, so, in many ways, a service provider makes sense.

Q Are first time funds outsourcing more these days? It seems with such high caliber service providers in the market, it beats trying to build that back office from scratch when they're starting out.

That's fair, and we do see more first-time funds outsourcing. Some of that is due to spinouts from larger organizations that outsourced, so they're already

comfortable with service providers. However, they still need a CFO; everyone does. CFOs aren't just dealing with accounting and finance matters nowadays. They're directing matters on the operational side of the business with a focus on strategic priorities. There might also be an in-house controller for more granular activities, but these new groups simply are continuing a process from their former firms. We pride ourselves in offering real support to all our clients, new or established, because it's natural for in-house staff to be more reactive than proactive in fund administration matters. They just have too much on their plates to act otherwise, so we like to be there to offer the most current best practices in our space. We can do that because it's our core focus.

What to outsource



Source: *pfm*/SANNE CFO Survey 2018

Q Have today's LPs played a meaningful role in the growth of your industry?

Not exclusively, but they are part of the landscape. They are more sophisticated, which increases expectations. The private equity industry still is relatively young, maybe 40 years or so. The investors involved now are large pension funds, sovereign wealth funds and endowments that often invest alongside the GPs.

More expertise comes with the enormous amount of money put to work. In turn, that leads to GPs being asking tougher questions. An established service provider can help ensure that those questions are answered quickly and satisfactorily.

More to the point, answers from independent providers lend credibility. We live in a post-Madoff world where there isn't the same level of trust between fund managers and investors. We like to say we're a transparent extension of the firm's back office, and that transparency can be reassuring to LPs, who appreciate the independence that comes with an outside perspective.

Furthermore, there's pressure on fees and expenses. While investors want to keep costs low, they also understand that fund accounting, administration and compliance are not where they want GPs to cut corners. Fund managers can allocate the costs of a service provider to the fund, which helps investors understand what roles are served by the internal team versus a third party. It can offer some much-needed clarity around those costs.

Q Many firms are expanding geographically. How important is it for their service providers to have staff and resources in these new geographies? How can GPs make sure their service providers are truly 'global'?

Some of our long-time domestic clients are assessing structures in Luxembourg or Dublin. It's a natural evolution as each fund grows in size to start looking abroad for investors, and that requires ensuring that funds are structured in an attractive manner for them. That also means a service provider needs a physical presence to continue to service that new, more complicated, international fund.

Fund administration is complex enough without having to manage multiple service providers, often who have different technology platforms that will need to be reconciled by the client. A single administrator with boots on the ground in all relevant jurisdictions remains the best bet, and we feel that there's a need to have a real presence in these places. Our clients are relying on us to understand the complexities and nuances of that new geography that they might not have themselves.

We fully expect our clients to perform the same exhaustive due diligence on us as their investors do on them. GPs shouldn't take our word for it, but talk to current clients and other references to verify that we are a skilled and global provider. Our activities may be non-core to a firm's business of investing, but they are a vital part of ensuring their overall success, and keeping their clients satisfied. ■

Eye for a hire: new kinds of vehicles require different skills

Strategic staffing

When GPs move into new strategies, it's vital to make sure the operational side has the right resources, even if they prefer to keep such costs down. But that takes planning and an eye for making the most of current staff and service providers. *By Rob Kotecki*

CFOs need to have a nose for new strategies. In the *pfm*/SANNE CFO Survey 2018, 22 percent of respondents said they were launching a new fund with a different strategy than their firm's heritage. Of the top reasons for doing so, it came down to pursuing sector specialization (34 percent), a need to grow AUM (28 percent), investor demand (18 percent) and firm diversification (18 percent). But it also raises the question: how many of these firms are staffing up for those new strategies?

In that same survey, over 55 percent of respondents were planning on hiring one or more staff members for the back office. That can be a testament to the growth of alternative assets overall these days, but it raises the question of how many of those new hires are in the service of new strategies? As firms move into credit and real estate, or expand their investment focus, don't they need more, or different, people to serve those vehicles?

Of course, that depends on a number of factors. But the first rule when considering a new strategy is that the CFO needs to be part of the conversation from day one. This allows for long-range planning, which can help in the selection of staff and service providers. For firms moving into new asset classes, they need to review service providers' capabilities, technology systems and compliance needs to choose the right mix of the resources. Often new kinds of vehicles need new IR staff.

> **"We share resources across all those strategies, so our hiring today isn't just for the current fund, but for where we're headed in the years to come"**
>
> **Jon Schwartz**

But when firms are changing things up within the same asset class, the resources may not change much, and there's an argument that small firms should be careful in bulking up, either with cutting edge technology or higher end service providers.

No matter how radical a departure the new vehicle may be from the firm's traditional mandate, the CFO needs to be part of the conversation as early as possible. In small firms, that may be easy, given how flat these organizations tend to be, but as firms grow, there's a greater chance the deal team brainstorms and evaluates strategies without the CFO in the room.

The veteran mid-market firm The Riverside Company has a novel way of making sure that doesn't happen, even as it moves into credit and hybrid vehicles. The founders named their COO, Pam Hendrickson, chairman of the new products committee. "So, the back office is there from the very beginning," says Hendrickson. Even if a move to real estate or credit is years away, a firm's leadership needs to share that with their operational leaders.

"We plan our resources well in advance of our activity," says Jon Schwartz, CFO/COO of New Spring Capital, a firm that manages four strategies with over $1.7 billion under management. "We share resources across all those strategies, so our hiring today isn't just for the current fund, but for where we're headed in the years to come."

But firms don't always evolve according to plan, so if a new strategy or product suddenly makes sense, the CFO will

have to discern what it takes to support that, which involves looking at current staff, technology and service providers. But for larger firms that have an extensive operational staff, it may be easier to pursue new directions without massive additions.

"We started out with a good [operational] base and infrastructure, so it wasn't hard to decide what additional staff and support we needed," says Hendrickson. Over the last six years or so, Riverside has expanded into non-control, credit and hybrid equity/credit funds. "For our credit effort, we added a few people who knew that world specifically, with regards to reporting and handling transactions," says Hendrickson.

Different strategies will appeal to different investors, and a lot of GPs will bulk up their IR team with professionals that understand the universe of LPs for the new vehicle. "As we have been diversifying products we are also diversifying out investor base and have thus added some staff to our fundraising function as well," says Hendrickson.

But the resources aren't limited to internal hires. Hendrickson brought in another group to handle the agency side of the credit offering, as their current fund administrator was relatively new to the space. And when New Spring moved into mezzanine, they outsourced some of the work because it was a regulated entity with unique compliance needs. "We felt that it was worth tapping their expertise on that front," says Schwartz.

New regulatory needs will often drive the hunt for new service providers. For example, one GP hired a custody agent for their new credit offering. And with regulators paying close attention to alternative assets these days, few GPs are looking to cut corners on compliance work.

Technology systems may need to be upgraded or changed in administering a new asset class, but given the tendency to outsource some element of fund administration, service providers will often maintain a relevant system. Several CFOs mentioned that new kinds of investments are a great opportunity to vet current technology solutions.

While there's a focus on making certain the firm has sufficient resources, GPs still prefer to operate as leanly as possible. One GP explained that often they'll err on the side of close relationships with service providers, rather than hiring new full-time staff.

For small firms that may be changing up their strategy over their first few funds, they shouldn't pursue the same route as larger, more established players. Delos Capital is in the midst of raising their second middle market fund, and has broadened its investment focus to be more opportunistic, instead of tightly sector focused, although it continues to favor industries where it has a track record like industrials and chemicals.

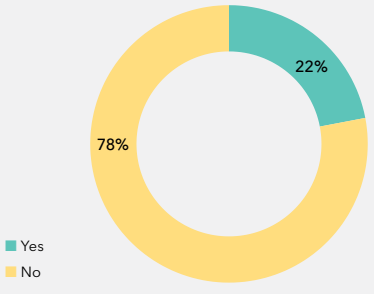
This shift, though slight, still required some operational changes. "That shift forced us to upgrade operational performance and demand more from our legal and tax advisors as well as our fund administrator," says Sanjay Sanghoee, the COO/CFO of Delos. "They had to look at these atypical deals and find the best structures and processes." Sanghoee recently hired a former E&Y auditor as a controller, but that was his sole hire. He did tap a new outside compliance firm, ACA, to add even more rigor to their own processes.

But he's stayed with his same fund administrator, FLSV, as they have a successful track record serving mid-market private equity funds like Delos, and FLSV has gradually become a de-facto extension of the Delos team itself. And while he has explored new technology systems, Sanghoee hasn't pulled the trigger on any just yet.

"If we were managing 50 deals, we'd need a way to automate some functions, but for a firm our size, some of this technology could actually make us inefficient as we end up spending more time managing the systems rather than focusing on the portfolio companies themselves."

New territory

Does your firm plan to launch a fund with a different strategy to your firm's heritage?



Source: *pfm*/SANNE CFO Survey 2018

Quarterly update

This includes generating a 50-page quarterly update for LPs. Sanghoee doesn't do this alone but has input and help from the deal team. "We're a very flat organization, and our LPs appreciate that everyone on our team plays an active role in reporting," says Sanghoee. As Delos grows and changes, this hands-on model may not last, but for now, it works for them.

Going forward, GPs will likely continue to diversify, but as this becomes more common, there will be more support and standardized approaches. Service providers will adapt to expand their services by building up their own resources or acquiring smaller firms.

After all, FLSV was recently acquired by SANNE. Perhaps by the time Delos is ready to launch their first credit fund, FLSV will still be the one-stop shop they need in the future. ■

The barriers to marketing AIFs in Europe

AIFMD was supposed to make it easier and more efficient for fund managers to raise capital in Europe. *Pierre Weimerskirch* of LIS – a SANNE company – asks whether it has succeeded

The aim of the Alternative Fund Managers Directive implemented in 2013 was to better protect the investors in alternative funds and form a common financial market for these funds by harmonizing the alternative funds arena in Europe – thus making capital raising in Europe easier.

Five years have passed since the implementation of AIFMD and it is about time to ask where we stand today in raising capital in Europe. Has it really become easier and more efficient?

Market participants agree that after extensive education over the last five years, the alternatives industry now has a profound amount of experience in how to deal with the AIFMD. The AIFMD is an important step forward concerning the formation of a common financial market within the EU. However, at the same time, market participants also discovered – and are still discovering – that the directive was not transposed into national law in a fully harmonized way in the different EU jurisdictions. Discrepancies remain in the way the directive is applied.

For an AIFM established in an EU member state and managing an EU AIF, the directive foresees that by notifying the local regulator, the AIFM can start marketing the fund once the notification is accepted. However, the contents of the notification letter may vary slightly country by country as local regulators may require specific additional information.

Some local regulators may ask for a processing fee for the notification file, which was not foreseen in the directive. The French regulator, for example, asks for proof that the upfront fee (currently €2,000 per AIF) has been paid.

Weimerskirch: inconsistencies remain in the AIFMD

> **“Discrepancies remain in the way the directive is applied”**

By filing your notification, these country-specific requirements have to be taken into consideration. Whereas at the beginning these differences might have led to delays in the notification process, today the turnaround time for a complete notification is for example five to 10 business days in Luxembourg or Ireland. The UK and the Irish regulator make it easy for fund managers, as you can download the notification forms directly from their website.

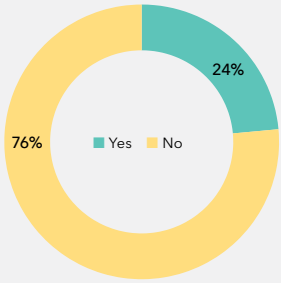
Larger uncertainties exist regarding pre-marketing activities of fund managers. Generally, before officially launching a new fund, a fund manager wants to speak to a limited number of prospective investors to test the demand and the key terms of the product. Under current rules there is no definition of pre-marketing, and local regulators have taken different approaches, making it difficult for managers to know what activities are permitted without having to submit a formal regulatory notification. Several EU jurisdictions such as Spain do not even foresee pre-marketing. These discrepancies are an impediment to the smooth marketing of alternative funds into the EU.

In March 2018, the European Commission issued a proposal to clarify the concept of pre-marketing and make it available in all EU jurisdictions under the AIFMD. Moreover, the commission took the opportunity to also make proposals regarding the harmonization of some of the inconsistencies in the marketing process.

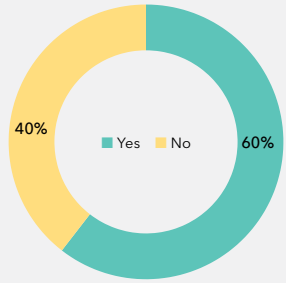
Unfortunately, the proposed

Outsourcing your AIFM

Are you presently outsourcing AIFM - (European Management Co.)?



If not today, would you consider outsourcing your AIFM?



Source: pfm/SANNE CFO Survey 2018

amendments are of no great help to non-EU managers as they cannot take advantage of the AIFMD marketing passport. They are left with the national private placement regimes, or so-called reverse solicitation, as a means for raising capital and have to abide by the rules of each country where they want to market their fund.

Thinking back to 2011 when the AIFMD was proposed, the concept was that by 2015 there was going to be a passport that non-EU managers could use, and that by 2018 the national private placement regimes would be gone. Today, we are behind schedule. Brexit is the intervening thunderstorm. And as long as the EU and London have not agreed on a Brexit plan for financial services there is little hope that the EU marketing passport will be extended any time soon to non-EU managers and funds. So waiting for the extension for the passport is not a fruitful strategy at present. The uncertainty around the Brexit plan has also encompassed the UK managers who are looking for alternative ways to access the EU market post-March 2019.

There are a number of different options managers can consider:

1. Set up their own AIFM

Managers can set up their own AIFM within the soon to be 27 European jurisdictions. But this is going to be costly. In an opinion issued in July 2017, the European Securities and Markets Authority (ESMA) clarified their expectations in terms of substance and governance with respect to an AIFM. Local regulators, such as in Luxembourg, have recently followed by issuing clarifying documents. One of the main considerations in relation to setting that up is looking at the AUM and size of the operation.

2. Outsourcing to a third-party AIFM

Another option worth considering is hiring a third-party AIFM and working with their partnership network. That includes the administration, the depositary and having the right people on the ground. The AIFM assists the fund sponsors with the identification and set-up of the appropriate fund distribution model and will monitor the marketing activities. Moreover, as authorized AIFM for the fund, the AIFM takes care of the drafting and filing of the marketing notifications with the regulator. The third-party AIFM model is a proven model in Luxembourg and Ireland.

3. A hybrid solution

A third option is using a hybrid solution at the beginning, where you have your own AIFM but are supported by a specialist third-party AIFM service provider. As AUM grow, you equip your AIFM with more and more substance of your own in key areas, like risk management, portfolio management or compliance. This doesn't mean that you cannot continue to work with specialist service providers.

So, where do we stand today?

Five years on since the inception of the AIFMD, one can say that the world of the alternative investment funds has become more professional. The directive has enabled fund managers to review and properly document their procedures and created a common market for alternative funds in 28 European jurisdictions. Although small inefficiencies still exist, the passporting concept has made the cross-border marketing of alternative funds within the EU easier. Passporting does come at a cost, which is evaluated differently by market stakeholders. However, the country-by-country approach is a lengthy and cumbersome process, especially if you would like to market your fund to a larger number of countries. Unfortunately Brexit has postponed the foreseen access of third-party countries to the passport. Nonetheless, managers from non-EU countries have other options at their disposal and outsourcing to an expert third-party AIFM is often the preferred choice. ■

Pierre Weimerskirch *is a managing director at LIS, a leading Luxembourg-based AIFM which is owned by SANNE.*

Asian attraction: eye-popping capital is up for grabs

How to fundraise in Asia

GPs seeking to collect rising levels of commitments from Asia Pacific investors must do their homework before they target the region, writes *Victoria Robson*

Almost half of GPs expect the proportion Asia Pacific investors in their LP base to increase in their next fundraise, according to the pfm/SANNE CFO Survey 2018. The promise of a swelling pool of yield hungry capital, as well as rising numbers of LPs – some with eye-popping amounts of capital ring-fenced to invest specifically into a private equity program under construction – is a tempting prospect. Even more so for managers eager to seize the opportunity to diversify their capital base at the peak of the cycle.

"I'm not surprised by this number," says Iesan Tsai, Hermes GPE head of Asia, in reference to the survey finding. While the US remains the widest and deepest private equity market globally, followed by Europe, the proportion of Asian capital has risen from 5 percent or less a decade ago to about a third today, she says. "If you look at the biggest GP names, about a third of their LPs are from Asia. And other GPs will follow suit to expand their base."

> **"In the next five years we are going to see a lot of new capital specifically from northern Asia, Japan in particular"**
>
> **Mounir Guen**

Concentrated in China, Japan, South Korea and Taiwan, sovereign wealth funds, state and corporate pension funds and insurance companies are among potential sources of new capital grabbing the attention of overseas GPs. "Foundations and endowments are still early, but that's a growing area as well," says Tsai.

"In the next five years we are going to see a lot of new capital specifically from Northern Asia, Japan in particular," says Mounir Guen, chief executive officer at MVision Private Equity Advisers, who notes he travels to Tokyo at least once a month these days. "There's a good volume of capital coming from these countries and a lot more to come. When the Chinese pension and insurance companies become more international, there will be a huge amount of capital moving into the global market place from pension funds and insurance companies."

While institutions like Japan's $1.4 trillion Government Pension Investment Fund, with its 5 percent allocation to alternatives, and Japan Post Bank's plans to invest around $64 billion into alternatives over the next three years grab headlines, down the scale, smaller sources of capital are also coming online.

The really exciting part of the expanding Asian investor base is the evolution of family offices into professional asset managers, says Eaton Partners head of Asia Chris Lerner. Regional institutions are also increasingly open-minded and prepared to look at mid-market vehicles, which "broadens the range of fund managers for whom sourcing capital from Asia is relevant," he adds.

To tap these new sources of commitments, starting from a low base, GPs are spending more time, energy and resources in Asia to build the relationships necessary to raise capital there, says Lerner. GPs need to manage their expectations and target the right investors, he says, noting that interest is not the same as a desire to commit. "You can waste a lot of time taking meetings with people interested in the asset class but that's not the same as raising capital."

Get informed

GPs entering Asia for first time need to grasp from the very start that it is not one monolithic commercial bloc. "There is no such thing as the Asian investor," says Lerner. "It's a huge and

diverse geography with unique and different cultures. GPs need to know what makes sense and have a well informed and targeted strategy given that it is such a diverse set of traditional and non-traditional investors – all at different levels of maturity and with varying legacies of exposure to alternatives and a historically less programatic approach to the asset class."

GPs would be foolish to regard new Asian LPs as low-hanging fruit. "There is a tendency among GPs who have not visited the region to underestimate the ease of raising capital," says Javad Movsoumov, UBS Private Funds Group managing director.

After first targeting local GPs, Asian LPs typically seek to allocate to established international managers with an initial bias toward well-known US funds, followed by European GPs, he says. Given the amount of capital large investors need to invest, they will seek to establish relationships with large GPs that can accommodate big check sizes. Managers demonstrating top-quartile performance, scale, a strong brand and a track record of exits have no difficulty in raising capital, he adds.

Any GP seeking to collect capital from the region must be patient. Asian LPs can take up to six months or more to come to a decision. They also like to meet face-to-face, says Movsoumov. "GPs need to visit the region regularly. Investors want to build trust, which requires time and effort."

When interacting with investors, GPs also need to tailor their sales pitch to each market's unique business culture. "There are different styles in Japan, China and Korea," says Tsai, who suggests GPs partner with a local distribution agent that can advise them on their approach.

Although some investors dislike pre-marketing, for less high profile funds seeking to establish a market presence, putting in the legwork is important to establish trust. "If you're not a globally known name, they want to know you as an individual," Tsai says.

A common mistake US and European GPs make is failing to understand that Asian LPs are interested in the manager's profile, not simply what they do within the portfolio company. "In Asia, many deals are driven by access and people want to know your background and what drives you," says Tsai.

Overseas GPs should be aware that Asia Pacific investors are "high touch clients," says Tsai. As well as frequent contact, they require regular portfolio updates and a seat on the LP advisory committee, she says. They also look for additional benefits from their relationship with the GP, such as education and training on the asset class. "They are at the bottom of the learning curve but are fast learners. Don't underestimate how much they know," she warns.

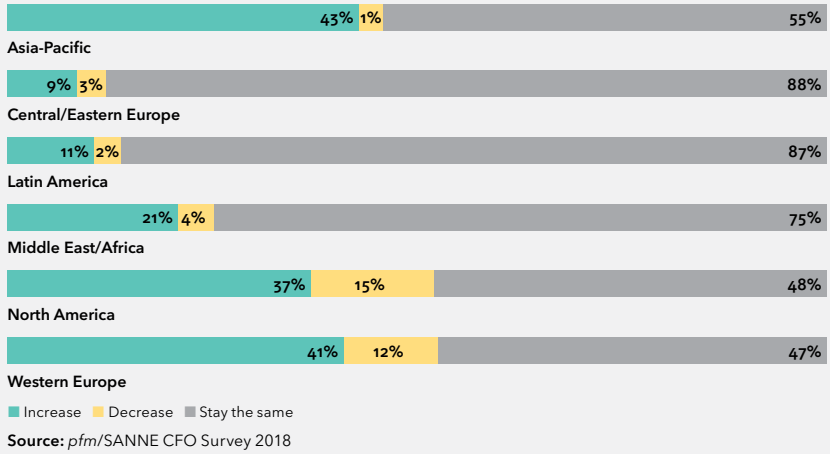
To attract capital, GPs need to recognize that Asia Pacific LP motivations differ from their home investors. US and European investors typically seek to match assets to liabilities, says Tsai, noting "that's less of an issue here. [Investment choices are more] about diversifying a portfolio and driving higher returns." Undertaking research on each individual LP to pinpoint what they are looking for "will make a world of difference before you come here," Tsai says.

Those GPs that choose to set up a local office "have a distinct advantage," she adds. In South Korea, for example, where the government has recently relaxed overseas investment restrictions and interest in foreign private equity is rising in tandem with the number of locally based overseas managers, investors want to ask questions directly to the GP and like to deal with local staff who can communicate in Korean, Tsai says.

In order to access the GPs they favor, some Asian LPs have already taken the initiative and established offices in the US and Europe. However, managers still need to be mindful of local laws governing which entities can raise capital. "You might be able to access an investor through their London or New York offices but note you are still locally regulated," says Guen. ■

Asia rising

Looking ahead to the next fundraise, how do you expect the proportion of your investor base (by location) to change?



Source: *pfm*/SANNE CFO Survey 2018

The figures may not add up to 100% due to rounding

SANNE

We are a leading global provider of alternative asset and corporate services and have been helping clients around the world for more than 30 years.

Listed as a FTSE 250 company on the Main Market of the London Stock Exchange, we employ more than 1,300 people worldwide and administer structures and funds that have in excess of £200 billion of assets.

Providing clients with high quality client service is our core focus.

We make the difference for our clients through the high quality services we provide, the professional expertise and experience our people have and the robust accredited business processes we operate to.

We understand that each client relationship has a unique set of requirements and expectations; that is why our client service teams are carefully selected and tailored to fit the specific and evolving needs of each client. At SANNE, more than 85% of all client-facing staff are qualified which is above the industry standard - this reflects our commitment to provide clients with industry leading client services.

Our clients include leading alternative asset managers, global financial institutions, family offices, UHNWIs and international corporates. Clients are serviced through regional businesses and multi-skilled client service teams which are led by directors with extensive asset class and market experience.

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We deliver tailored fiduciary services to a highly valued international client base through a global network of offices located in 17 leading financial jurisdictions. Our offices are spread across the Americas, EMEA and Asia-Pacific. Across our business we have specialist expertise in a wide range of complementary asset classes and markets services that includes:

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Market leading debt fund and capital market administration services

REAL ASSETS
A comprehensive range of real asset fund services

PRIVATE EQUITY
Private equity funds and fund of private equity fund services

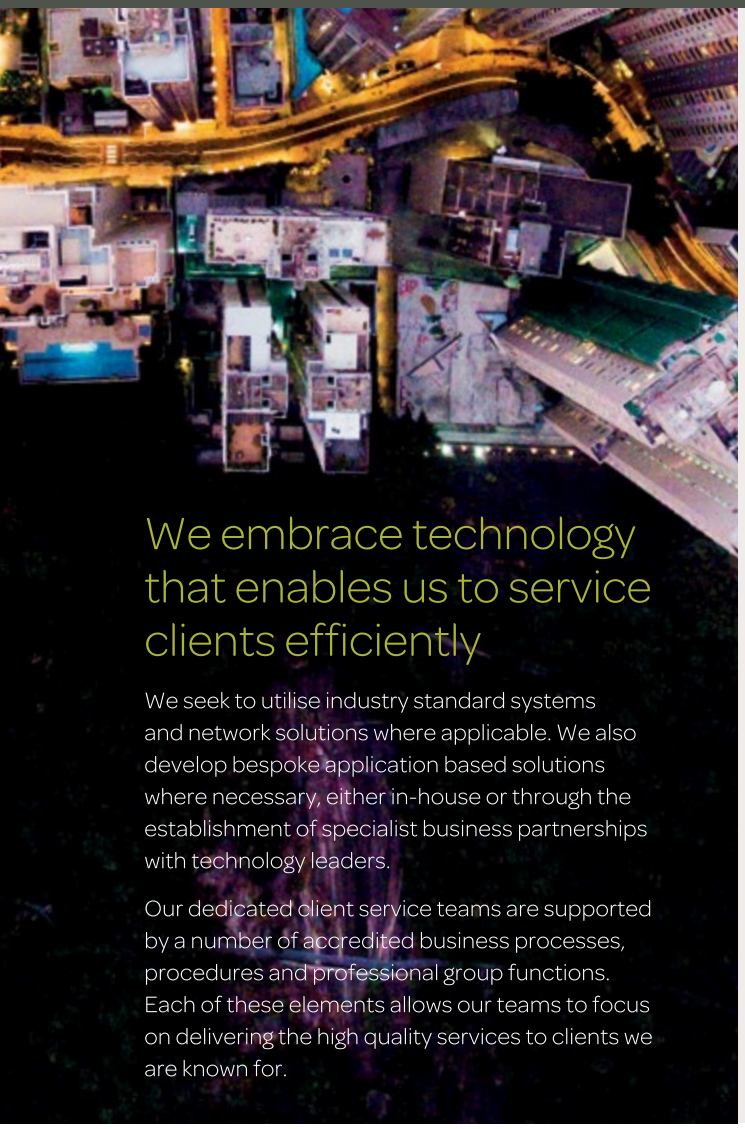
HEDGE
International hedge fund administration services

AIFMD & REGULATORY
Management Company services, AIFMD depository and regulatory reporting services

LOAN SERVICING
Competitive solutions for lenders providing an unrivalled suite of loan services

CORPORATE
Specialist corporate administration solutions for special purpose vehicles and corporate structures

PRIVATE CLIENT & FAMILY OFFICE
Tailored range of wealth management and private family office services



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Our dedicated client service teams are supported by a number of accredited business processes, procedures and professional group functions. Each of these elements allows our teams to focus on delivering the high quality services to clients we are known for.

How we help clients

Outsourced efficiency
We help clients become more efficient through the provision of tailored services to meet all of their outsourced requirements.

Transparency
We provide our clients with access to their data, files and appointed service teams at all times.

Fully integrated solutions
We ensure our clients receive best-in-class high quality levels of service by assigning dedicated client services teams with multi jurisdictional experience to meet their ongoing needs.

Technology
We utilise bespoke systems and industry recognised platforms such as Efront, Investment Café and Intralinks.

Risk management and reporting
Client service teams are carefully selected to deliver the specific requirements of each client relationship.

Building long-term strategic partnerships
Our asset and market specialist experts work alongside clients to develop synergies and services that meet their needs.

Key contacts

GLOBAL

> **Zena Couppey**
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> **Jason Bingham**
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> **Jamie Villiers**
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> **Jon Cartmell**
Director, Business Development – Corporate Services

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> **Mark Law**
Managing Director, Alternative Assets – Asia-Pacific & Mauritius

> **Valerie Mantot**
Head of Business Development – Asia-Pacific & Mauritius

Everything but the deals

NewSpring Capital's Jon Schwartz believes his core priority as president and COO is handling all the institutional responsibilities, so the deal team can focus on generating returns. *Rob Kotecki* sat down to discuss the role he and his staff play during fundraising

As COO and president of NewSpring Capital, Jon Schwartz takes an active role in fundraising from the initial planning to negotiating the last commitment. We spoke with him to talk about what he does when NewSpring Capital raises money.

Q How do you view your role during fundraising?

For me, it starts with the inception of the fund, in terms of the planning what the next fund will look like, collaborating with the general partners and the IR staff to develop a vision for the next vehicle. I'll take the lead with fund formation issues, and I'll discuss the latest developments in structures with legal and discern if we need to do anything differently to better suit our LPs and our priorities.

We also get out in front of the data demands. We pre-populate our data room with as much info as possible to anticipate LP needs. But the reality is we can't predict them all, so when they throw out a new request that we didn't think of, often we'll include that data point from that point forward. And personally, I like to handle the actual negotiations with LPs and their legal counsel. I understand what the market is at that moment, what terms and conditions we had in the past, and how best to amend our agreements for the current fund.

Q Is there a break between efforts or is it one perpetual fundraise?

When you take a look at our business, the industry has shifted. Even at the lower end of the market, say under $2 billion under management, investors expect to back a firm, not just a fund. We have to act like an institution, which means we plan for a three, seven, even a 10-year time horizon. That's not only in terms of the size or kind of funds that we expect to raise, but how we staff the firm. Who can we bring aboard today at a junior level that will grow into a senior role for a future fund? It's why we've built our analytics team because we're only going to be managing more data, not less. And we're investing in technology for the same reason, to make data collection and analysis more accurate and efficient. And we've hired staff dedicated to fundraising, in IR and outside sales and marketing, to get a better idea of investors moving into our space.

Schwartz: takes hands-on approach to fundraising

> "I like to handle the actual negotiations with LPs and their legal counsel"

Q How has fundraising evolved since you joined the firm in 2004?

Investors expect us to have the infrastructure and technology of a much larger firm, and that was not always the case. And LPs are driving for that because their committing with an eye towards a much longer relationship. They're focused on longevity.

Investors are also much more curious about my side of the business. They don't all have their own operational due diligence teams, but even if they don't, they'll frequently ask to meet me and discuss how operations are structured and discuss our approach to things like cash management. And I assure them we've got that handled so when they ask where our investing professionals spend their time, I can say it's doing what they do best: sourcing deals, adding value to our companies and hopefully, exiting at a profit. ■

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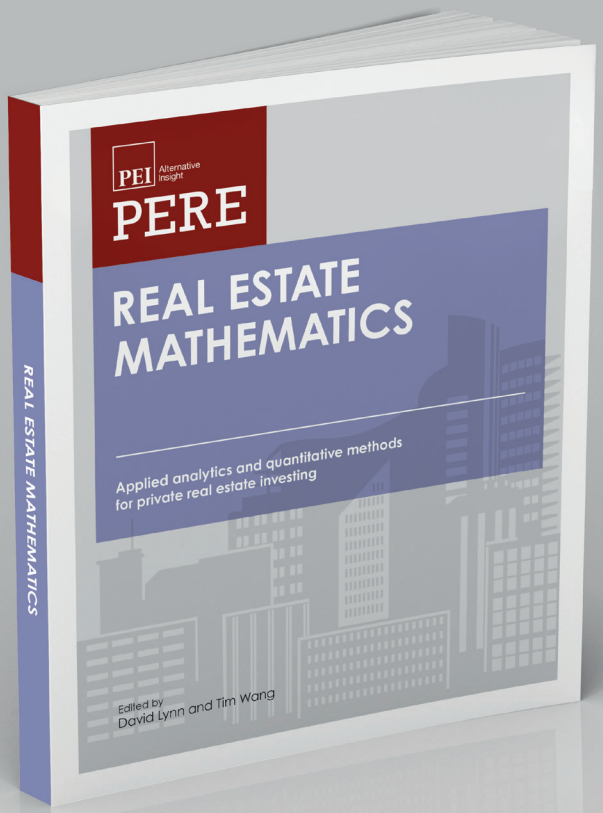

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