

VIDEO SERIES

Briefing



Fundraising in the U.S.

Three experts discuss what non-U.S. GPs need to know before coming to the U.S. to fundraise



Mounir Guen
MVision Private Equity Advisers



Richard Kunzer
BC Partners



Mona Marquardt
Abbott Capital Management

SPONSORED BY



Fundraising in the U.S.

Key Findings

1. The U.S. private equity market is an essential source of capital for investors worldwide
2. Half of all LPs don't return to a GP group's next fund, and this creates challenges
3. Foreign GPs should be prepared to talk about their home markets to U.S. investors
4. Non-U.S. GPs need to make their presence known, even when not fundraising
5. Modern PE fundraising is complex, regardless of where it's done

The Panelists



Mounir Guen
CEO
MVision Private Equity Advisers



Richard Kunzer
Senior Partner
BC Partners



Mona Marquardt
Principal
Abbott Capital Management

→ CONTINUES ON NEXT PAGE

1 THE U.S. PRIVATE EQUITY MARKET IS AN ESSENTIAL SOURCE OF CAPITAL FOR INVESTORS WORLDWIDE.

The investment landscape is continuing to globalize, but the U.S. is still the most important fundraising market for private equity. About 70 percent of total private equity capital originates in the United States. That means even non-U.S. private equity firms must typically come to the U.S. to raise capital.

“There is the emergence of other areas of the world, but here in the U.S. you have the public pension fund system, corporate pension funds, fund-of-funds, endowments, foundations that have been investing in private equity many years longer than anyone else globally,” says Richard Kunzer, a senior partner at BC Partners who works for a London-based firm but lives in New York. “It’s a very sophisticated, very deep market and a very wide market. So every private equity fund, whether it’s buyout, venture, fund-of-funds, really needs to be in the market and focusing on the market in the United States.”

Mounir Guen, CEO of MVision Private Equity Advisers, points out that there are funds around the world born and raised locally, from Brazil to Sweden. He notes that Korean pension plans, for example, put \$6B to \$8B a year in the private equity market. And he suggests that, when sufficient capital is available at home, it does not always make sense for foreign GPs to get on a plane bound for the U.S.

But he agrees that the United States has some of the most experienced and knowledgeable gatekeepers and consultants in the industry. “And their client base is an international client base,” he says. “And so, by default, even when we’ve got Australian general partner clients, their Australian investors are being consulted by U.S. gatekeepers.”

GPs must decide what they’re offering, figure out what subset of investors their plan suits best, then go to them, says Mona Marquardt, a principal at Abbott Capital Management. “It’s down to GPs to understand their positioning, which is not just the potential returns they’re offering but what will be the perception around their risk profile? What diversification are they going to offer? What exposures are they going to offer to markets or sectors that investors may not traditionally have?”

2 HALF OF ALL LPS DON’T RETURN TO A GP GROUP’S NEXT FUND, AND THIS CREATES CHALLENGES.

Around 50 percent of LPs don’t come back to a GP’s next fund. Given that attrition rate, GPs have to be realistic. They should hope for the best and plan for the worst.

“Work with an assumption of a 50 percent melt,” Guen says. “If that is not the case, then you’re oversubscribed and you’re doing very well. If that is the case, then you’re prepared.”

The upside, for the industry as a whole is regular ingress of new funds. When an LP leaves a GP group, “it creates an



The Case for Co-investment

Richard Kunzer
BC Partners

GPs are always looking for ways to build strong, long-lasting relationships with LPs. One of the best ways is through co-investment.

“We’ve been around for 20-plus years, and some of our longest-[lasting] and largest LPs have done a significant number of co-invests with us,” Kunzer says. “We always prefer to team up with investors rather than another GP, because we find it a very good way for LPs to get to know us a lot better.”

It’s one thing to sit across the table from an LP and outline your investment process. It’s quite another to roll up your sleeves and actually do a deal together. “You can try to explain the secret sauce that differentiates you from that other firm out there,” Kunzer says. “But it’s not until you’ve done a co-investment together that you get to know your investors much better—what their hot-button topics are.”

He adds that co-investments can also lead to a greater appreciation of the blood, sweat, and tears that go into private equity deals. “One of the comments we frequently get from the investor base when they’ve done a co-investment is ‘They really understand—it’s very hard.’”

→ CONTINUES ON NEXT PAGE



Playing by the Rules

Mounir Guen
MVision

There are so many complex regulations around fundraising that sometimes even the best-intentioned private equity firms stray outside the rules. For instance, it's a criminal offense to solicit public pension funds without following the correct procedures and without marketing to the proper individuals.

"I don't think that general partners outside the United States—and sometimes within the United States—quite appreciate those details," says Guen.

Additionally, there are certain filings, registrations, and fees that need to be addressed, depending on what state your investors reside in and the type of investment vehicles they employ. "Again, a lot of general partners don't necessarily understand the complexity of these nuances," Guen says. "You have to ensure that the reporting you have coincides with the tax filings, as well as the reporting filings, as well as your marketing content."

He notes that firms without an adequate support structure for compliance are needlessly opening themselves up to liability.

opportunity for other GPs who might be able to squeeze into that space," Marquardt says. "For a GP outside the U.S., there might be the opportunity to fill a hole, to meet a need that hasn't been addressed previously."

For their part, LPs are increasingly open to non-U.S. funds. Kunzer says the last fundraise by his firm impressed him with the fact that investors feel they now have the expertise to allocate to a Pan-European buyout fund like BC Partners or to funds in regional markets in Asia, South America, and beyond.

"Another big change I've noticed since the financial crisis is that LPs are much more willing to cut long-term relationships," he adds. "Whereas in the past there was a lot of, 'Well, this is a long-term relationship, we've been with them, we've made good returns,' now LPs do their due diligence as though it's a new fund. They're willing to say, 'No, we're not going to re-up. We're going to look at X, Y, and Z instead.'"

3 FOREIGN GPs SHOULD BE PREPARED TO TALK ABOUT THEIR HOME MARKETS TO U.S. INVESTORS.

LPs will want to know, so non-U.S. GPs should be ready to cover their home turf in detail, not only their track record and portfolio companies but macro topics like the economy in general.

"Any GP who is not North American coming into the North American market needs to be prepared to talk at length about their home market," Kunzer says. "That's what people are looking at. So they'll say to us, 'What is the opportunity in Europe? What are the risks?' At the present moment, 'What is with the Greek economy and the bailout and the negotiations? What is that going to do to the euro?'"

Private equity partners should not start their days with the sports page. "The advice we always give to general partners is, every morning, whether it's on your iPad, your iPhone, or in the coffee shop, read all the headlines of all the newspapers, local and national newspapers, because the headlines will be the topic in the meeting," Guen says.

And be able to contextualize. If you're addressing a U.S. audience, it's dollar returns that matter. If you're in a multicurrency exposure or a fund that has volatility in its local currency, investors want to know how they can protect their dollar returns.

4 NON-U.S. GPs NEED TO MAKE THEIR PRESENCE KNOWN, EVEN WHEN NOT FUNDRAISING.

Non-U.S. GPs who show up in the U.S. while fundraising for the first time are already too late. They need to spend time in the U.S. between fundraisings to build relationships and establish themselves—and for purely practical reasons.

"On the relationship side, it's much easier for an LP, for

→ CONTINUES ON NEXT PAGE

a prospective investor, to reject a product-sale conversation than to reject a relationship-development, introductory conversation,” Marquardt says. “So be in the market in between funds, talking broadly about your strategy. On the practical side, you might not have enough lead time if you’re coming to U.S. LPs when you’re already fundraising. Also, some of your U.S.-perspective investors might have different expectations or requirements around legal documents, around terms. If you’ve already had a close, that’s going to be more complicated to revise, potentially.”

And at the end of the day, people are important. “Investors want to go and visit the investment personnel,” Kunzer notes. “They can’t really make a decision unless they’ve had the time to visit the people in London, in Hong Kong, or wherever it might be that the GP has the investment team. They need long lead time to do their work, to get to know people, before they can even start to look at documents.”

It’s equally important that GPs familiarize themselves with investors so they can narrow the field of LPs to the most suitable candidates. The U.S. market is massively diverse. There are high-net-worth investors, family groups, foundations, endowments, corporate pensions, public pensions, municipal pensions, insurance companies—the list goes on. And within that list there are investment strategies of different types, from conservative to opportunistic. GPs must learn who’s who.

5 MODERN PE FUNDRAISING IS COMPLEX, REGARDLESS OF WHERE IT’S DONE.

As Confucius once said, no matter where you go, there you are—and it will be hard to raise a fund there. The U.S. has expanded regulations that apply to every form of financial product, including private equity. Europe is increasingly fraught as a fundraising destination, in part due to AIFMD. There are rules in Asia, regulations in the Middle East, laws in Latin America.

“Historically it was about \$1M to bring a fund to market,” Guen observes. “Today it’s at least three or four times that and scaling. This is largely because it’s become a very complex situation.”

The key to navigating new investment horizons is knowledge. “The market that’s most complicated for a GP is the market the GP doesn’t know,” Marquardt says. “If you don’t know the U.S. market, it seems very complicated, because it does have such a diverse investor base, it is such a large physical region, and there are very specific regulatory requirements. That being said, the U.S. is a fairly stable environment to market into. We don’t have shifting AIFMD requirements; we don’t have governments choosing to open or close IPO windows. But you can learn any market, and you can master any market.” ■



The Importance of Transparency

Mona Marquardt
Abbott Capital Management

The last thing any LP wants is to open up the paper in the morning and read bad news about one of the companies in her private equity portfolio. If things aren’t going well with a particular company, LPs want to hear about it first from their private equity partners, not from *The Wall Street Journal*.

LPs are looking for a level of communication from their GPs that goes far beyond the perfunctory. “There is a need to maintain the relationship with more than simply transactional communication about the fund and its returns,” Marquardt says.

She adds that if there is a bump in the road with a portfolio company, GPs need to be honest and transparent with their investors in revealing those problems and how they plan to fix them. If bad news does ultimately leak out, at least the LP is not taken by surprise.

“Coming with information that helps your investors actually explain what’s going on to their constituents, to their board, or to the public employees that they’re responsible for is crucial,” says Marquardt. “You want to ensure that they’re not caught off guard.”

Expert Q&A

With Mounir Guen
CEO
MVision Private Equity Advisers



What advantages does working with MVision have, given its global understanding of the fundraising market?

One thing that's important to us is to be able to understand the global dynamics and to be able to understand how capital flows, how it processes, how it thinks, and what's vital to it. And then to help guide our clients—our GP clients, I should stress—through those types of unchartered or chartered waters and navigate the process, with the ability to deliver a realistic result for them in a realistic time frame.

On the other side of the equation, it's very important that the investors are understood and that their processes are respected. And that we work to try to make life easier for them by anticipating some of their issues, some of their questions, by understanding their programs and what works and what doesn't work—to be able to help their programs achieve their targets through the introduction to the right strategies. ■

Contact:

Mounir Guen at mg@mvision.com



About Privcap Media

Privcap is a digital media company that produces events and thought-leadership content for the global private capital markets. Privcap Media offers communications services to market participants.

Contacts

Editorial

David Snow / dsnow@privcap.com

Mike Straka / mstraka@privcap.com

Andrea Heisinger / aheisinger@privcap.com

Sponsorships & Sales

Gill Torren / gtorren@privcap.com

Neil Golub / ngolub@privcap.com

Doug Weber / dweber@privcap.com

Series/ **Fundraising in the U.S.**



Watch the series in its entirety
at www.privcap.com

Click to follow link

- ▶ Mapping a Vast Fundraising Landscape
- ▶ Why Foreign GPs Should Maintain a U.S. Presence
- ▶ How to Avoid Regulatory Complications

With the right partner you can navigate the hardest times

The African elephant is truly remarkable. When severe droughts come, the herd finds its way back to a source of water by use of memory and acquired knowledge. Acting rather like an inbuilt GPS, this enables the elephants to locate water hundreds of miles away to survive the hardest of times.

At MVision, we have the people, experience and knowledge to help all our clients navigate their way through even the toughest of economic climates.

Learn more at
www.mvision.com

