



How to 'Win' Your Next Fundraise

From the Privcap video series "The Importance of GP Branding"



Kay Blackwell
Managing Director,
MVision Private Equity Advisers



Gary Sernovitz
Managing Director,
Lime Rock Partners

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How to 'Win' Your Next Fundraise

The fundraising market is growing increasingly crowded, and GPs need to stand out to be successful. Experts from MVision Private Equity Advisers and Lime Rock Partners explain how to differentiate your firm.

Featured Experts:



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↓ CONTINUES ON NEXT PAGE

Matthew Malone, Privcap: We're talking about a subject that is important to any general partner looking to raise money in a very crowded market: differentiation. How does a GP successfully get past the first meeting with a potential investor?

Kay Blackwell, MVision: there is a lot of competition these days with increased number of GPs and the investors reducing the number of relationships that they have in their portfolio. The key is really to be impactful early on in that first meeting, and that is [by] focusing on your value creation and your differentiation And also by ensuring that the LP has a good handle on your business, your people and your dynamic.

Gary Sernovitz, Lime Rock Partners: In my experience over 12 years, [LPs are] really looking for three things. The first is the “magic box”—your system for creating alpha as an investor.

Second, they're looking for private inputs into that magic box. For sector specialists, it's relationships with entrepreneurs or understanding the business. The third thing—and this is a little bit difficult sometimes to quantitatively measure—is sort of a durable hunger. They're looking at you and want to make sure that your everything is on the line with this next fund that they're

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Are you seeing repeated mistakes that GPs make when they have an introduction?

Blackwell: A lot of GPs don't really examine and interrogate their investment process. They take it as a given. They're in it every day and executing it, so the key is to really step back and take a look at the inputs into that process. The LP is looking to see that the alpha is hardwired into your investment process.

In terms of the mistakes, it's being too generic—thinking that the advantages of the private equity asset class are advantages for your investment strategy. One mistake we hear a lot is, “We're smarter than everybody else.” That would be a red flag for an LP.

A sector-specific strategy in and of itself is not a point of differentiation. How do you, in a world of other energy funds, prove that you're the fund worth investing in?

Sernovitz: Just ignore that you're a sector-specific fund. Part of what we try to do in a meeting is make sure we talk about us and ignore the advantage or disadvantage of being a sector specialist, because frankly, we're talking to people who deal only, for the most part, with energy-sector funds.

How does a GP effectively gather information and then articulate it to a prospective investor?

Blackwell: We do a lot of working sessions with our GPs where we will do that process of examination with them. It's really drilling down into their DNA and what differentiates them. And then [we] look at, very specifically, how that forms the value-creation process.

Are you finding there are specific questions that LPs appear to be more focused on than they were in the past?

Blackwell: The value-creation piece is part of it. We have very specific questions on “What did you do to create value in this investment?” The investors

↓ CONTINUES ON NEXT PAGE



MVision's Blackwell, Lime Rock's Sernovitz

are looking for properly articulated points and then the demonstrable impact from that.

What is more prevalent now is really digging down into the teams—so [we recommend] interviews with all of the team members, looking at the infrastructure and then also succession planning in the GP to ensure that you've got strong bench.

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Sernovitz: The other thing that people are looking at is downside protection and loss minimization. The second is demonstrable alpha. They try, and we try, to provide them [with] that data, but it's extraordinarily difficult. One out of every five deals is just a straight shot that this did happen or this didn't happen, and you can kind of demonstrate it.

That's not solved by data volume, unfortunately. It's solved by understanding a little bit more of the randomness of Wall Street investing, and the more real-life factors.

Have you seen things that your GPs have done that have been particularly compelling when presenting those sorts of data points?

Blackwell: As with anything, knowing your competition is key. LPs do expect you to know very specifically, who plays in the same space and has the same kind of mindset for investment philosophy as you do. They will often ask you, “What about X?” or [about] a group of managers. As with everything, [you need to] be very specific.

Something that I've seen work very well was a very systematic comparison to highlight the strengths versus the competition in response to an LP question like that. ■