

A Capital Perspective

Fundraising Edge

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“In the fund raising process, capital availability is often a function of confidence on the part of the limited partner’s perspective of how likely or unlikely he or she is to realize a return on invested capital with the fund manager under consideration. Confidence in the investment firm’s analytic and reporting capabilities plays a key role in building that confidence”.

Not all general partners or fund managers enjoy long histories of stellar returns that result in limited partners lining up at their door to allocate capital to their firm. The process is fiercely competitive and winning the trust and confidence of LPs to the extent that they choose to allocate capital is paramount. According to Jack DiFranco, Managing Principal, Private Equity at Grant Thornton LLP, “2011 is expected to be a crowded fundraising market. In fact, globally there are about 700 private equity and venture capital funds either already in the market or expected to be in the market to raise funds during 2011. They are all competing for the same dollars to be doled out by LPs”.

Increasingly, limited partners are demanding greater insight into both performance and underlying risk in the portfolio. Indeed, greater transparency results in higher confidence since most would agree that you cannot trust that which you cannot see. Accordingly, and with increased frequency, fund managers are turning to best practice systems and tools to differentiate their firm from the field of 700 firms competing for LP capital. In fact, some would argue that very soon, best practice systems and tools will no longer represent a key differentiator but rather table stakes required to compete for LP capital.

From the LP’s perspective, a firm that leverages technology for analytic and reporting tools is better able to manage risk, react to problems and is much more responsive to meeting reporting requirements, especially when one-off questions for historical data are required.

From the LP’s perspective, technology systems and tools represent a higher level of competence and lower perceived risk, positioning the firm as a better candidate for capital.

| | <i>Information Integrity</i> | <i>Responsiveness</i> | <i>Perceived Risk</i> |
|------------------|---|---|---|
| System |  |  |  |
| No System |  |  |  |

The fund manager with the ability to answer questions such as, “how much loan covenant headroom exists in my portfolio? Or, can I review months-of-cash remaining for each portfolio company in ascending order at a moment’s notice”. If so, your firm is at a distinct competitive advantage when competing for LP capital. While the LP may not ask for such information on a day to day basis, knowing that your firm has a firm grasp on portfolio company performance and risk may correlate to how well your firm does competing with the other 700 firms vying for LP capital in 2011.