

The Fundraising Process: Marketing & Differentiating Your Fund Internationally

Stanwich Advisors Background



Completed
Active
Closed above target and oversubscribed

Representative Latin American Fund Investors

Institutional Marketing Process

Key elements of the institutional marketing process

- Scope – Unless you have a “hot” fund, you will have to contact a large number of potential prospective institutional LPs
- Professional materials – You will only get one opportunity; use it wisely
- Disciplined process – You need to have a disciplined process to interact with hundreds of institutional LPs
- Preparation – Be prepared for the breadth, depth and time required in an institutional diligence process; document everything to ensure follow-ups are done in an appropriate and timely manner

Institutional Investor Landscape

Institutional Investors

- Types can include: Public & Corporate Pensions, Family Offices, Funds of Funds, Consultants/Advisors, Sovereign Wealth Funds, and Endowments
- Return targets will vary depending on investor's objectives
 - Return considerations – absolute return vs. principal protection
 - Timing considerations – long term vs. short term capital needs
- Investors have different diligence processes, including sometimes thorough operational due diligence
- Institutional investors typically review thousands of fund investment opportunities per year, therefore it is critical that fund managers properly differentiate themselves from their competition in the market
 - Investors re-underwrite even re-ups

Investor Perception

Investors will have preconceived notions about your investment opportunity; the goal of your narrative is to shape their thinking.

- An investor will ask themselves the following questions:
 - Do I need more (or any) exposure to this geography?
 - Do I feel this the right strategy for this opportunity (in terms of asset type and/or industry)?
 - Is this the right team? Do they have relevant backgrounds/track records?

Positioning the Narrative

The key elements to differentiating your narrative lies in the following factors:

- The Opportunity – Is the market large enough to support this strategy?
- Investment Strategy – Is your team’s investment strategy attractive on a relative and absolute basis?
- Team – Is your experience of your team relevant to successfully executing your investment strategy against the market opportunity?
- Track Record – Does your team have an applicable historical track record?
- Fund Size – Is your proposed fund correctly sized for the opportunity and strategy?

Positioning the Narrative–Opportunity

Opportunity Considerations; You must ensure you have strong answers for the following investor questions:

- Why is this opportunity attractive?
 - What is the best evidence of this attractiveness?
 - GDP growth, growth in middle class, increase in discretionary income, increase in deregulation, etc.
- Why is the opportunity sustainable?
- Why is this opportunity necessary for an institutional investor’s portfolio?

Positioning the Narrative – Strategy

Strategy Considerations

- How is your strategy differentiated from the competition? What makes you special?
- What are the consistencies within your strategy? In terms of:
 - Company stage (early stage, growth, buyout)
 - Company size (total EV, equity vs. debt)
 - Majority vs. minority ownership
 - Geography
 - Industry/sector
- **Investors will look for inconsistencies with regards to the above; if there are inconsistencies across your historical track record it is critical that you clearly articulate the rationale for those differences**

Positioning the Narrative – Team

Team Considerations

- How long have you worked together; have you been through a fund cycle?
- What are each team member's strengths and weaknesses? Do you have relevant financial and operating experience? Do your skill sets complement each other?
- Has there been any Senior-level turnover?
- How is carry distributed throughout the team? Is there an alignment of interests between senior and junior resources?

Positioning the Narrative – Track Record

Track Record Considerations

- Is the track record in a standard format? (see slide 12)
- Is the complete track record shown? (i.e. no cherry picking)
- Is there volatility across:
 - Different funds
 - Deal lead professional
 - Company stage (early stage, growth, buyout)
 - Company size (total EV, equity vs. debt)
 - Majority vs. minority ownership
 - Geography
 - Industry/sector

Marketing Materials – Presentation

The following sections are key to a strong presentation

- Executive Summary – An introduction to the opportunity, strategy, team, track record
- Investment Opportunity – An overview of the opportunity and its attractive qualities
- Investment Strategy – Why is your strategy well-positioned to execute against the opportunity?
- Performance – Detailed summary of the firm’s investment track record
 - During the presentation, verbally discuss expected future liquidity and/or valuation changes¹
- Team – Backgrounds of the team
- Case Studies – Detailed descriptions of transactions that are representative of the strategy
 - Try to strike a balance between winners and losers

¹Do not disclose in hardcopy

Marketing Materials – Track Record

Fund IV – Summary Track Record

(As of 03/31/2017, \$ in millions)

Investment	Entry Date	Exit Date	Holding Period	Fund Capital	Realized Value	Unrealized Value	Total Value	Gross MOIC	Gross IRR
<i>Realized</i>									
Portfolio Company 1	Feb-12	Mar-15	3.1	\$37.5	\$131.8	–	\$131.8	3.5x	50.9%
Portfolio Company 2	Jun-12	Jun-16	3.9	26.5	84.2	1.4	85.5	3.2x	36.5%
Total Fund IV Realized			3.5	\$64.0	\$216.0	\$1.4	\$217.3	3.4x	45.0%
<i>Unrealized</i>									
Portfolio Company 3	Oct-12	-	4.5	\$35.8	–	\$10.8	\$10.8	0.3x	NM
Portfolio Company 4	Dec-12	-	4.3	45.6	–	20.6	20.6	0.5x	NM
Portfolio Company 5	Jun-15	-	1.8	33.6	–	58.6	58.6	1.7x	40.9%
Portfolio Company 6	Dec-15	-	1.3	20.2	–	23.2	23.2	1.1x	11.5%
Portfolio Company 7	Apr-16	-	0.9	26.0	–	33.5	33.5	1.3x	31.7%
Portfolio Company 8	Dec-16	-	0.3	36.0	–	36.0	36.0	1.0x	0.0%
Portfolio Company 9	Jan-17	-	0.2	54.3	–	54.3	54.3	1.0x	0.0%
Portfolio Company 10	Mar-17	-	0.0	31.8	–	31.8	31.8	1.0x	0.0%
Total Fund IV Unrealized			1.7	\$283.1	–	\$268.6	\$268.6	0.9x	NM
Total Fund IV Investments			2.0	\$347.1	\$216.0	\$270.0	\$486.0	1.4x	20.6%

Net Performance 1.2x 13.0%

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Marketing Materials – Case Study

Portfolio Company *(Realized)*

Company Logo

Background

Investment Date	February 2012
Fund Capital	\$37.5 million
Location	Ashland, Ohio
Sector	Education / Media
Ownership (Entry)	90%
Enterprise Value (Entry)	\$54.0 million
EBITDA Multiple (Entry)	6.6x
Status	Realized
Returns	3.5x Gross MOIC; 50.9% Gross IRR

Description

- Category leader for [XX] in the United States
- Largest player within a niche segment, with exclusive access to more than 3.3 million customers across more than 80,000 retail locations (including Walmart, Target, CVS, Walgreens, Dollar General)

Transaction Source

- Sourced the opportunity through an boutique investment bank, who was hired by a Philadelphia based family office to sell their equity stake
- Selected by management as its preferred partner due to the firm’s track record in the media sector, and specifically their experience with licensed brand activity

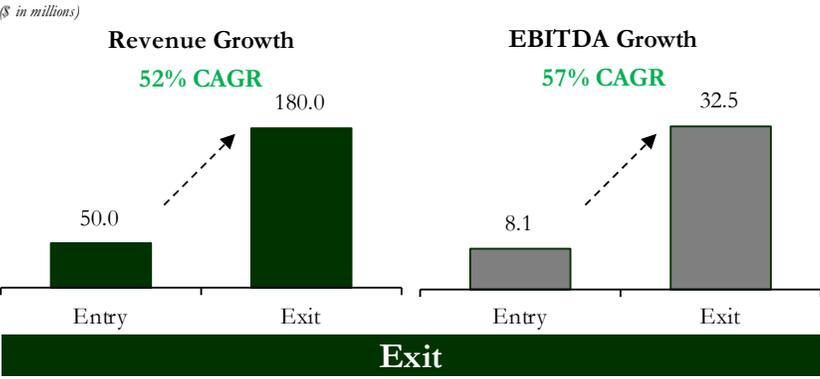
Investment Thesis

- Well-positioned to take advantage of favorable growth trends in its distribution channels, due to increasing demand from end users
- Company had unique and symbiotic relationships with content creation studios, which created barriers to entry for low-cost competitors
- Ability to achieve scale through complementary add-ons
- Enhance management’s capabilities by making a number of key hires
- Leverage previous experience

Post-Investment Activities

- Acquired add-on in August 2013 for \$54.0 million (5.6x June 2013 Adj. EBITDA)¹, significantly strengthening product offerings and broadening the company’s distribution footprint
- Acquired add-on in August 2014 for \$39.5 million (4.4x 2014E Adj. EBITDA)¹, providing an upmarket entry into the premium market
- Recruited key personnel, including a President/COO, VP Sales, and VP Operations
- Named exclusive vendor to Distributor and other discount retailers
- Acquired several new licenses and product formats, resulting in broader distribution rights, and the opportunity to increase price and unique new product offerings

Value Creation



- In September 2014, launched a process to sell the company
- In March 2015, sold their ownership in the company to GP, a multi-billion dollar private equity firm

Marketing Materials – PPM

A legal disclosure document as well as a marketing document

- All PPM sections scrubbed to 100% congruency with all other materials
- Use consistent fonts, styles and sizes throughout the PPM
- GP and placement agent work together to draft the document; send to counsel afterwards for sign-off
- Go to market with competitive terms and conditions
 - 2% management fee, 20% carry, 100% fee offset, 2% or greater GP commitment
- PPM should be ready when you go to market and periodically supplemented with material developments (on advice of counsel)
 - E.g. company sales and purchases, fundraising closings, senior-level team changes, material changes to the investment opportunity

Marketing Materials – Data Room

Sample Data Room Index

1. Marketing Materials
 - 1.1. Private Placement Memorandum
 - 1.2. Marketing Presentation
 - 1.3. Due Diligence Questionnaire
 - 1.4. Back Office Due Diligence Questionnaire
 - 1.5. Track Record and Cash Flows
2. Fund Definitive Documents
 - 2.1. LPA and Subscription Documents
 - 2.1.1. Limited Partnership Agreement
 - 2.1.2. Subscription Agreement
3. Investor Communications
 - 3.1. Prior Annual Meeting Presentations
 - 3.2. Financial Reporting
 - 3.2.1. Past Fund Audited Financial Statements
 - 3.2.2. Past Fund Quarterly Reports
 - 3.3. Capital Calls and Distributions
 - 3.3.1. Sample Capital Call Notices
 - 3.3.2. Sample Distribution Notices
4. Prior Investments
 - 4.1. Investment Committee Memos
 - 4.2. Investment Case Studies
5. People and Processes
 - 5.1. Team Biographies
 - 5.2. Valuation Policy
 - 5.3. Code of Ethics / Compliance Policy
 - 5.4. Internal Controls Memo
 - 5.5. References
6. Regulatory Filings
 - 6.1. Form ADVs
 - 6.1.1. ADV Part 1
 - 6.1.2. ADV Part 2

Outreach and Follow Up

It is essential to stay in front of investors during a fundraise. Steps are as follows:

- Call the investor and follow up with introductory cover email with attached presentation (and potentially PPM as well)
- If no response is received, follow up with a voicemail and subsequent email
- Use every opportunity to keep investors apprised of good news (fundraising updates, co-investment opportunity, and positive portfolio news)
- Be prepared, if you reach an investor, to articulate the merits of your investment opportunity (executive summary of the presentation)

Investor Diligence Process

- Initial review – Desktop review following initial receipt of materials
- First meeting – GP takes the investor through the presentation
- Internal committee review/approval to do more work
- Data room work – Download data room documents and evaluate
- Second meeting – Deeper dive into the investment opportunity (generally more of a Q&A where GP answers specific investor questions)
- Onsite due diligence meeting – Large presence from both sides to cover a set agenda over the course of a few hours or more (1v1's or group meetings)
- Final diligence – Complete internal investment memorandum leveraging information gathered in onsite diligence meeting and legal/operational review
- Final approval – Generally, final approval could take up to a month to closing

First or Second Meeting Organization

Managing the meeting

- Begin by asking time allotment
 - Prepare to give a 30, 45, and 60 minute version of your presentation
- Confirm the agenda of the meeting
- You may have delivered the pitch many times, but this is the first time the LP has heard it; create a dialogue—not a monologue
- Use anecdotes with actual portfolio examples; be specific about value-add
- Acknowledge your failures—cite the lessons learned and how you will implement these lessons moving forward
- Do not disparage the competition; emphasize your strengths instead

Onsite Organization – Sample Agenda

Topic

1. GP History and Formation
 2. Firm Overview
 - 2.1. Evolution of the Firm
 - 2.2. Team backgrounds, roles and responsibilities
 - 2.2.1. Expected time allocations per professional
 - 2.2.2. Capacity & board seats
 - 2.2.3. Decision making processes
 - 2.2.3.1. Investment committee composition
 - 2.3. Investment team changes
 - 2.3.1. Historical / expected departures
 - 2.3.2. Expected hires and promotions
 - 2.4. Economics
 - 2.4.1. Management Company ownership
 - 2.4.2. General compensation, carried interest allocation, vesting
 - 2.4.3. GP Commitment
 3. Strategy & Market Discussion
 - 3.1. Strategy discussion
 - 3.1.1. Investment themes and macroeconomic environment
 - 3.1.2. Key merits and risks
 - 3.2. Sourcing overview
 - 3.3. Portfolio construction
 - 3.3.1. Expected portfolio size
 - 3.3.2. Target company characteristics
 - 3.4. Deal structuring
 - 3.5. Competitive landscape
- Consistent introduction to the firm and team is essential to keep investors on track
 - Any changes in the team should be highlighted and explained clearly

 - Strategy & Market Discussion should also reflect the same language used in earlier conversations

Onsite Organization – Sample Agenda

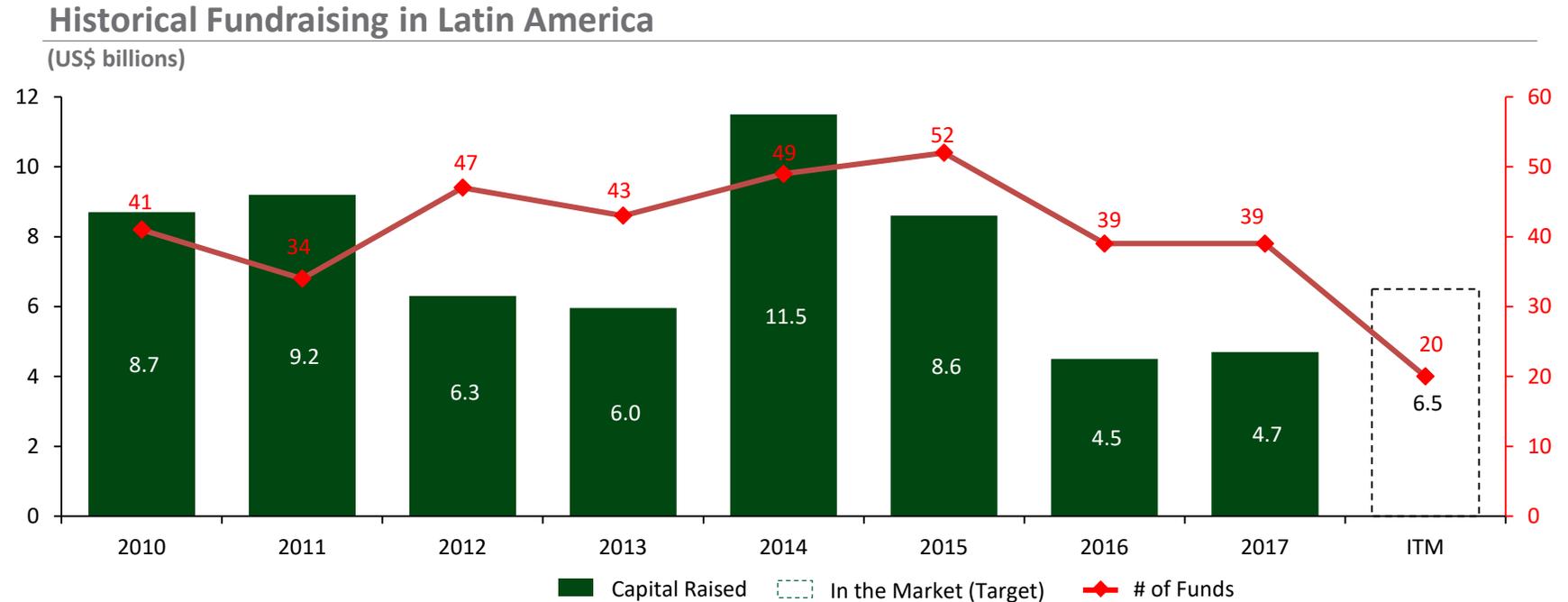
- 3.6 Due diligence process
 - 3.6.1 Investment staffing and due diligence
 - 3.6.2 Post-investment operational value-add
4. Fund I Portfolio Companies
 - 4.1. Remaining active portfolio companies
 - 4.2. Discussion on lessons learned
5. Fund II Portfolio Companies
 - 5.1. Individual portfolio company discussions
 - 5.1.1. Investment thesis / sourcing
 - 5.1.2. Discussion of carrying values and methodology
 - 5.1.3. Exit strategy / timing / projected returns
6. Current Pipeline / Fund III Activation
7. Structure / Terms
 - 7.1. Summary of Fund III terms
 - 7.2. Material changes from Fund II
8. Timing and Fund Size
 - 8.1. First close timing & size
9. Limited Partners
 - 9.1. Existing limited partners
 - 9.2. New limited partners
10. Final Questions & Closing Remarks

- Portfolio discussion is the most important part of the onsite
- Be clear in articulating how your strategy is consistently reflected across each portfolio company

- Ensure your terms adhere to market standards

LatAm Fundraising Environment

- Fundraising in Latin America continues to be challenging as a result of lackluster fund performance and political and economic uncertainty (particularly in Brazil)
- Steep currency devaluations in Latin America have negatively affected valuations of unrealized portfolios, which has highlighted the FX risk that U.S. dollar investors assume when investing in Latin America
- This has made it difficult for investors to make the case for Latin America to their investment committees, particularly when they compare Latin American fund performance to funds in “safer havens” like the U.S.



Source: EMPEA