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# The Changing Landscape for Private Equity Fundraisers: Responding to the Investor Spring

March 2014

## A Shifting Landscape and Demanding Investor Base

How have investors in alternative assets changed in recent years? How are they sourcing new investment opportunities and what are they looking for from fundraisers? We explore the answers to these key questions.

## The Increasingly Competitive Fundraising Market

We examine the current private equity fundraising environment, with breakdowns by fund type. How has the fundraising market evolved over recent years?

## Meeting the Challenges of the Changing Landscape

We explore how Preqin Investor Network and Enhanced Fund Listings can help private equity fundraisers be successful in today's competitive fundraising market.





# A Shifting Landscape

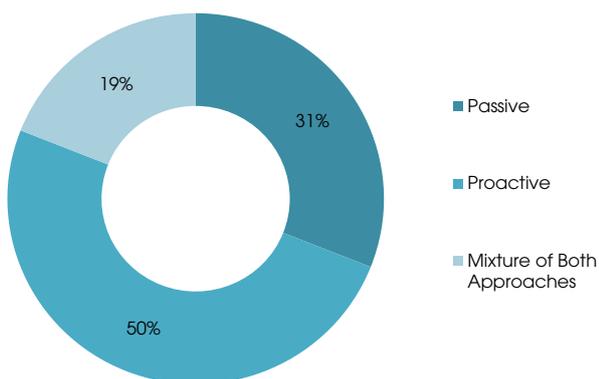
The landscape has shifted. Alternatives are no longer alternative. They are now a mainstream component of many investors' portfolios. The number of investors in private equity grows year-on-year, as does the size of investors' allocations to the asset class. But it is not just the increasing significance of private equity for investors in terms of capital committed that heralds a new era for investor interaction with the alternatives market. In addition and largely because of this, investors have become surveyors of the market; proactive in casting a wide net in search of the best opportunities and proactive in demanding detailed fund and firm information at the first-cut of the due diligence process. This has implications for fund managers and placement agents who need to ensure visibility in an increasingly crowded market with increasingly exacting consumers. The landscape of the private equity market has changed, with some referring to an Investor Spring in full blossom. Fundraisers must react.

**“Those that do not understand the requirements of today’s investor will find it difficult to fundraise successfully.”**

*- Stephen Marquardt, CEO  
and Head of Investor Relations, Doughty Hanson & Co.*

Investors today are different from those of even a few years ago. In a recent Preqin study, 50% of investors stated that they took a proactive approach to sourcing new fund opportunities, predominantly taking the lead in finding appropriate private equity funds to invest in (Fig. 1). Thirty-one percent of investors interviewed deemed themselves passive, relying exclusively on third parties to present them with viable fund opportunities. The remaining 19% stated that they employ a mixed approach to sourcing alternative fund investments. Separately, 51% of investors stated that they use an internal investment team as

Fig. 1: Investors' Attitudes Towards Sourcing Alternative Asset Fund Investments



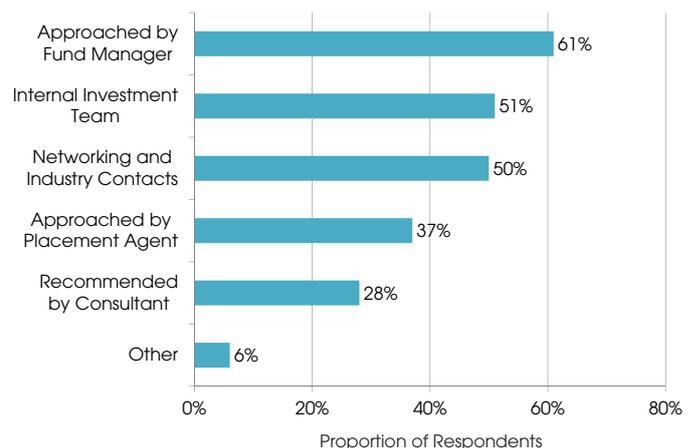
Source: 2013 Preqin Investor Network Global Alternatives Report

a primary means of sourcing new fund investments (Fig. 2). Clearly, incoming approaches from fund managers and industry gatekeepers remain a tested and relied upon means by which investors find out about fund opportunities. However, with most investors now approaching fund managers for information, the rules of the game have changed somewhat.

This new investor that proactively hunts for opportunities represents a new source of potential leads for fundraisers. However, fund managers and placement agents need to act to ensure they make the most of the new model of investor. Fundraisers need to guarantee visibility for their fund and ensure investors looking to independently survey the market can find their offering. Upon finding the offering, fundraisers need to guarantee that investors have adequate information to hand to make a first-cut assessment of the vehicle. Even investors that remain passive in their approach to finding private equity funds to invest in are more demanding in terms of the information they require from fund managers at the beginning of the investment process. Proactive or passive, investors expect a transparent relationship with fundraisers from the start, and failure on the part of the fund managers to provide this is likely to be detrimental to fundraising efforts.

As stated to Preqin by Stephen Marquardt, the CEO and Head of Investor Relations at Doughty Hanson & Co, “Limited Partner investors are more analytical than ever before. They actively search for fund investment opportunities globally and demand much more information early on in the due diligence process. LPs insist on information in a timely and transparent manner. Most GPs recognize this – but those that don't understand the requirements of today's investor will find it difficult to fundraise successfully.”

Fig. 2: Main Methods Used by Investors to Source New Private Equity Investment Opportunities



Source: Preqin Best Communication Practices for Fund Marketers Report



# Surveyors of the Market

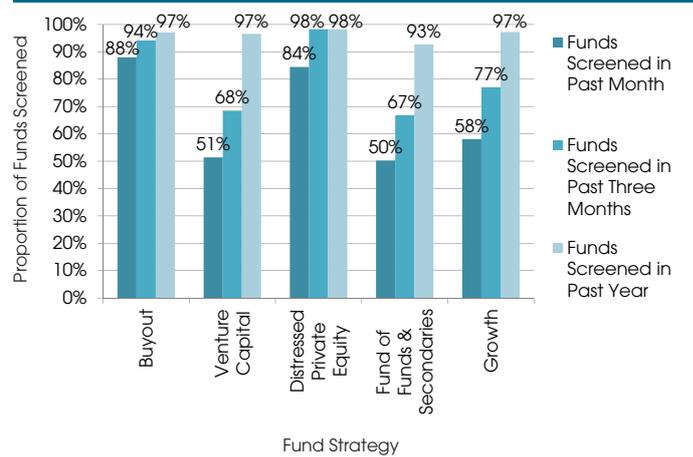
Investors are increasingly eager to survey the market to find funds that align with their investment criteria. With more funds in market than at any other time in the history of private equity fundraising, investors are not short of options and want to be certain that they have reviewed as much of the industry as possible before narrowing down their search for fund commitments. Preqin Investor Network demonstrates just how proactive investors have become in discovering and researching potential investment opportunities. Over 5,600 accredited investors across 3,300 institutional firms use the Investor Network to survey the market, with overview and contact information for all 2,106 private equity funds in market available to them. More than 140,000 pages of current and historical fund, firm, performance, market overview and fund terms benchmark data are reviewed by investors on the Investor Network every month, with overview screenings of funds in market alone amounting to several thousand reviews every month.

**“96% of all private equity funds seeking capital have been reviewed by investors on Preqin Investor Network in the past year.”**

The expansive and thorough nature of investors’ funds in market screening can be seen by looking a little more deeply into activity on Preqin Investor Network. In total, 96% of all private equity funds seeking capital have been reviewed by investors on the Investor Network in the past year. A fund profile on Preqin Investor Network includes overview strategy information, firm background, performance data and key contact details. Funds big and small, established and first-time, in established and emerging markets are screened via the Investor Network. Of first-time and non-first-time private equity funds, 55% and 66% were reviewed in January 2014 by investors respectively, but over the past year, 97% and 96% of first-time and experienced fund managers’ funds have been screened. This is particularly encouraging for inexperienced managers reliant upon as many avenues as possible to introduce their offerings to the market.

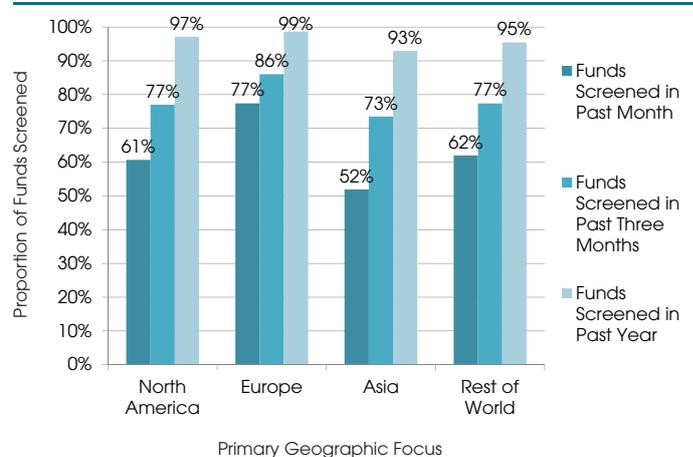
Fig. 3 shows the percentage of private equity funds in the marketplace surveyed by investors on the Investor Network by fund strategy. In January alone 88% of all buyout funds in market were reviewed on Preqin Investor Network. In total, the 275 buyout funds in market were reviewed 1,650 times by investors. Over longer horizons investors were even more thorough with reviewing the buyout market, with 94% of funds surveyed over the last three months and 97% over the last year. Even the most prevalent fund type in market has had the majority of funds reviewed by investors within a month’s horizon, with 51% of the 497 venture capital funds in market screened by investors in January 2014. Over a 12-month horizon, as with the buyout market, 97% of all venture capital vehicles in market were screened by investors on Preqin Investor Network.

Fig. 3: Proportion of Private Equity Funds Screened by Investors on Preqin Investor Network by Fund Strategy (As at 01 February 2014)



Source: Preqin Investor Network

Fig. 4: Proportion of Private Equity Funds Screened by Investors on Preqin Investor Network by Primary Geographic Focus (As at 01 February 2014)



Source: Preqin Investor Network

A look at funds in market by primary regional focus is a further indication of the expansive and thorough outlook of investors in surveying the fundraising market. The majority of funds in every region were reviewed by investors on Preqin Investor Network in January 2014. Over three-quarters (77%) of Europe-focused funds were surveyed by investors (Fig. 4). In terms of the most reviewed market by number of fund screenings, North America-focused funds attracted the greatest attention, with 1,862 reviews. Over a longer term horizon, all fund regions fared well in terms of the market being reviewed by investors on Preqin Investor Network. Over a 12-month period, at least 93% of funds in each regional market were screened by investors.



# A Demanding Investor Base

While investors are proactive in surveying as much of the market as possible, they are also proactive in wanting detailed information on funds at the earliest opportunity. Clear and transparent communication by fund managers and placement agents on fund strategy, management fees and other terms and conditions, fund investment team details, and performance track record are vital from the very beginning of GP-LP interaction. Almost 10% of the market's funds seeking capital have already signed up to enable investors to request this information via Preqin Investor Network. However, the contrast between what investors expect from managers when reviewing initial fund marketing material and in what many cases they are getting should be a cause for concern for some in the industry.

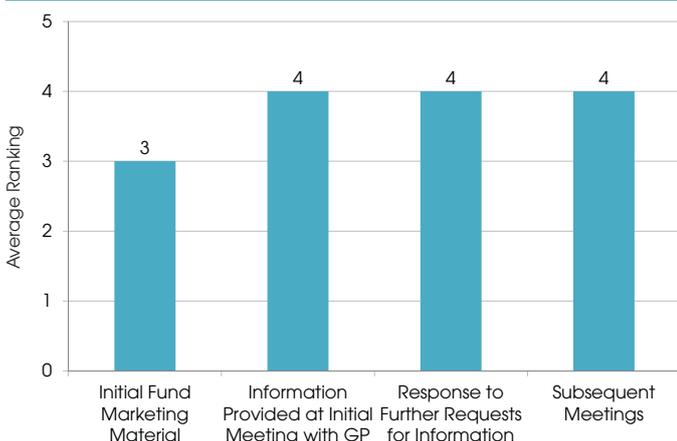
**“Whether a household name with a celebrated track record or a first-time fund, opening communication channels to investors across the globe is of paramount importance.”**

*- Stephen Marquardt, CEO  
and Head of Investor Relations, Doughty Hanson & Co.*

Investors surveyed by Preqin for the Best Communication Practices for Fund Marketers report last year were asked to rank how satisfied they were with the information provided to them by fund marketers at various stages in the fundraising process. This is shown in Fig. 5, where one represents the lowest satisfaction and five the most satisfaction. Beyond the first filtering round, interacting with initial fund marketing materials, investors were generally positive about communications with fund managers. However, the initial fund marketing material was perceived to be merely average in quality, with a ranking three out of five.

Fig. 6 shows how investors rated the different sections of typical initial fund marketing materials. While there were a number

Fig. 5: Investor Satisfaction with Information Requests Provided by Fund Marketers Throughout the Fundraising Process (5 - Most Satisfied; 1 - Least Satisfied)



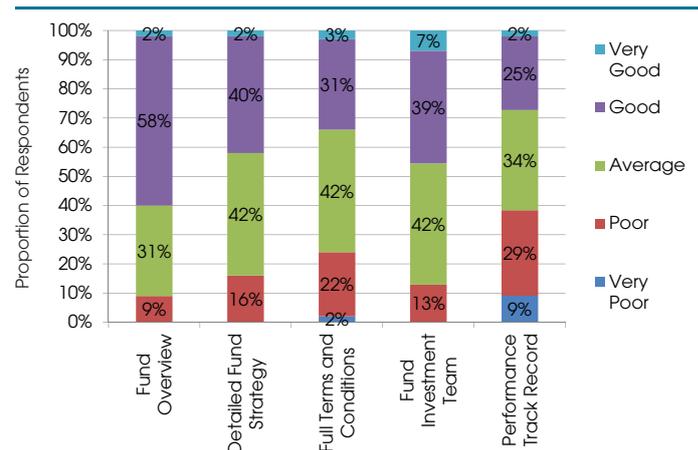
Source: Preqin Best Communication Practices for Fund Marketers Report

of positive responses indicating the skill of many managers at communicating this information, there is certainly room for improvement from the industry. The fund overview was the only section of initial fund marketing documentation rated as good or very good by a majority (60%) of investors surveyed, with all other facets of communication rated by the majority of investors as average or worse. Full terms and conditions and performance track record were considered the least well represented sections of initial fund marketing materials. Sixty-six percent of investors surveyed rated the full terms and conditions sections as average or worse, and 72% of investors considered initial communication on performance track record to be average or worse.

Stephen Marquardt, CEO and Head of Investor Relations at Doughty Hanson & Co. explained that “Doughty Hanson has long appreciated the need to communicate clearly and with full transparency to potential and existing investors alike. The good business practices of the past, however, have now become more essential than ever. Whether a household name with a celebrated track record or a first-time fund, opening communication channels to investors across the globe is of paramount importance.”

Perhaps some fund managers believe that any ground lost to competitors in the initial fund marketing stage can be made up with an impressive performance thereafter. However, with such a competitive fundraising market, a record 2,106 private equity funds currently seeking capital and investors on average receiving 35 unsolicited fund documents every quarter (with larger investors receiving up to 100), fund managers and placement agents risk losing out to more conscientious competitors that provide investors with the information they want at the earliest stages of their investment process. With proactivity among investors an increasingly widespread trait, screening large sections of the market, as seen on Preqin Investor Network, is becoming commonplace. Failure to provide the right information in a clear format can lead to fund managers losing out at the first hurdle.

Fig. 6: Investors’ Ratings of Typical Sections of Initial Fund Marketing Documentation

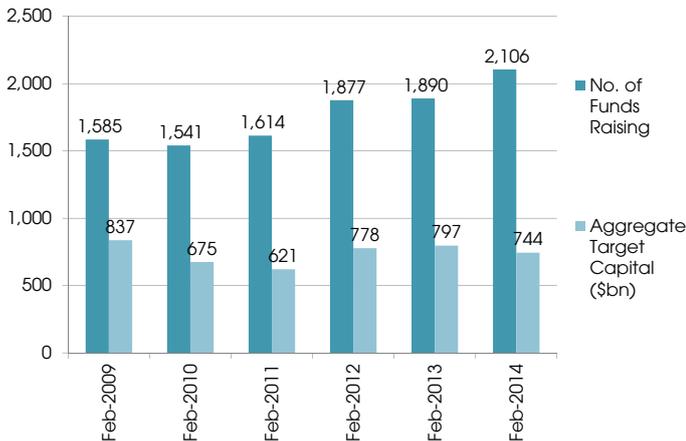


Source: Preqin Best Communication Practices for Fund Marketers Report



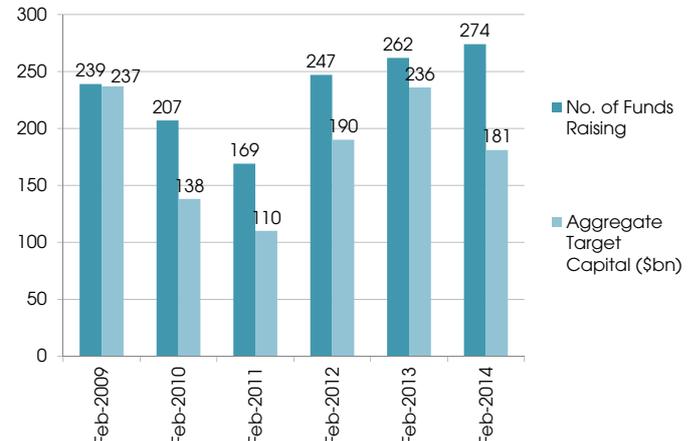
# The Increasingly Competitive Fundraising Market

Fig. 7: Private Equity Funds in Market over Time, February 2009 - February 2014



Source: Preqin Funds in Market

Fig. 8: Buyout Funds in Market over Time, February 2009 - February 2014

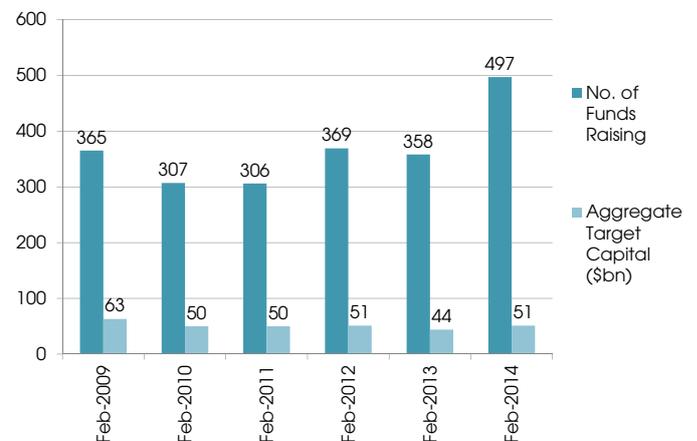


Source: Preqin Funds in Market

Looking at Preqin's fundraising data, evidence of the most competitive private equity fundraising environment in history is clear, and evident among a number of private equity markets. For fund managers and placement agents, getting heard above the noise has always been challenging, but with a record amount of funds seeking capital from an ever more demanding investor base there is little room for error with initial communication.

As shown in Fig. 7, there are substantially more funds seeking investor capital than there were a few years or even just a year ago. Across the whole of private equity, the number of funds seeking capital has grown by 33% in five years, with 1,585 funds seeking capital in February 2009 compared to the 2,106 in February 2014. A look at buyout funds, the market accounting for the largest share of capital sought in the private equity industry, shows an increasingly competitive fundraising environment. Whereas 169 buyout funds were in market as of February 2011, now there are 274 buyout funds vying for capital as of February 2014 (Fig. 8). Venture capital fundraisers have also seen a huge rise in competition in a very short period of time; as of February 2014, there are 497 funds on the road, representing a 39% increase in funds raising capital compared to February 2013 (Fig. 9).

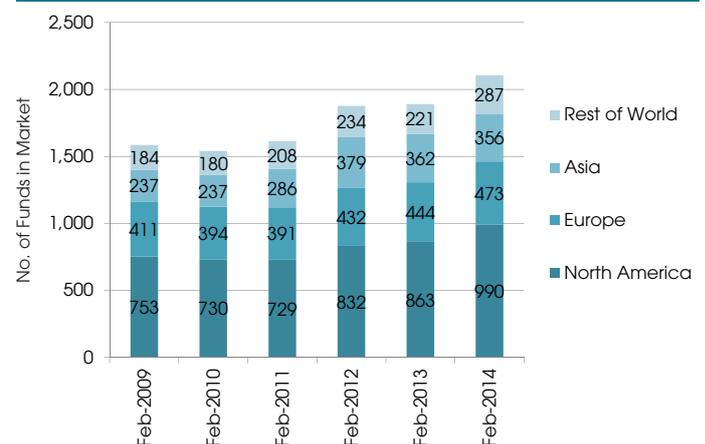
Fig. 9: Venture Capital Funds in Market over Time, February 2009 - February 2014



Source: Preqin Funds in Market

This trend is global, and as pronounced in established markets as emerging ones. Funds focused on North America need to take heed of competition and do what they can to stay ahead as much as funds focused on Asia, Latin America and other burgeoning private equity markets. In three years the number of managers competing to raise capital for North America-focused funds has grown over 36% from 729 funds to 990 (Fig. 10). In one year alone the number of North America-focused funds in market has grown almost 15%. A look at Europe-focused funds conveys a similar pattern. In three years from February 2011 to February 2014 the Europe-focused fundraising market has expanded by 21%. Asia-focused funds have grown by 50% and Rest of World-focused funds by 56%.

Fig. 10: Private Equity Funds in Market over Time by Geographic Focus, February 2009 - February 2014



Source: Preqin Funds in Market



# Meeting the Challenges of the Changing Landscape Head-on: Preqin Investor Network and Enhanced Fund Listings

It is a challenge for established managers to stay ahead of the pack, with the fundraising environment even less forgiving for new managers raising for the first time (only 7% of capital raised by fund managers in 2013 was by new firms). All managers need to ensure visibility and get across their message to investors, whether raising from or for established western markets or emerging frontier markets, in buyout, venture capital, growth, distressed markets and beyond.

**“Enhanced Fund Listings has been a positive addition to Doughty Hanson’s wider investor relations activities.”**

*- Stephen Marquardt, CEO  
and Head of Investor Relations, Doughty Hanson & Co.*

With investors surveying the market in increasing numbers and becoming ever more diligent and discerning reviewing initial fund marketing materials, fundraisers need to be seen and heard as early as possible during an investor’s investment research process. Preqin increases the likelihood of this for fund managers and placement agents alike. Ensuring a fund is visible on Preqin Investor Network, with 63% of private equity funds surveyed by investors a month, 78% over a quarter and 96% over a year, is an easy but important measure for funds. This enables investors to view overview and contact information for the offering. But investors want more than just overview information on funds to help with their first-cut assessment of the market. Being seen in this market alone is not enough: fundraisers must also be heard.

Enhanced Fund Listings gives fund managers the opportunity to provide crucial information to the 5,600 investors using Preqin Investor Network in a clear and concise way and has quickly become a highly useful complimentary service for Investor Relations teams across the world. Ten percent of private equity funds in market have already signed up. The opportunity for fund managers and placement agents is straightforward, free and raises no compliance issues as all requests for fund material are incoming. Fundraisers provide Preqin with key metrics on their offerings – management fees, fund terms, fund strategy, investment team history and track record – and investors surveying the market can request to see this information via Preqin Investor Network. Only investors approved by the fund manager are able to see Enhanced Fund Listings information and fund managers receive a flow of incoming requests to view data typically found in PPMs and other initial marketing materials. Investor demand is met and fundraising becomes that much easier for Investor Relations and Business Development teams in the most competitive market in private equity history.

As stated to Preqin by Stephen Marquardt, CEO and Head of Investor Relations, Doughty Hanson & Co, “Preqin Investor Network is helping to bridge the communication gap between investors and managers in today’s complex fundraising market. Enhanced Fund Listings has been a positive addition to Doughty Hanson’s wider investor relations activities. It has opened the door to new investors keen to discover details, led to more incoming investor enquiries and provided an efficient and effective way of communicating fund information.”

## Free Exposure to the Most Active Network of Accredited Investors

Get your fund in front of over **5,600 investment professionals** looking to make new alternative investments by listing your fund for **free** on [Preqin Investor Network](#). Use a listing to:

▶ **Generate incoming leads** from investors searching for investment opportunities.

▶ **Manage the flow of fund information** to viable investing institutions.

To list your fund for **free** on [Preqin Investor Network](#), or to find out more information, please visit:

# The Changing Landscape for Fundraisers: Responding to the Investor Spring

## March 2014

### Preqin Investor Network

**Preqin Investor Network** is a complimentary online service available to accredited investors focused on alternative investments: private equity, hedge funds, real estate and infrastructure.

The service provides investors with access to data, tools and intelligence to assist them with:

- Sourcing new fund investment opportunities
- Conducting due diligence on potential investments
- Making asset allocation decisions

Preqin Investor Network provides overview information on over 2,100 private equity, real estate and infrastructure funds and more than 11,000 hedge funds are listed on Preqin Investor Network. Over 5,600 investment professionals are using the service to proactively survey the market.

#### Enhanced Fund Listings: Incoming Leads from Proactive Investors Globally

Since November 2013, over 200 funds, targeting a total of \$50bn, have already begun directly engaging approaches from accredited investors on Preqin Investor Network through Enhanced Fund Listings, accounting for almost 10% of funds being raised.

An Enhanced Fund Listing on Preqin Investor Network is free, and can help fund managers provide proactive investors with the information they are looking for. Enhanced Fund Listings complement and work alongside your existing investor relations and business development practices, and as all requests for information are incoming this raises no regulatory issues. An Enhanced Fund Listing on Preqin Investor Network offers a number of additional benefits:

- New leads from investors globally.
- An easy way for investors to request the most important information typically found in PPMs.
- A preferential rank in investors' searches of funds in market
- Your fund key details remains in focus - added to approved\* investors' portals and available to view every time an investor logs in.

\*You choose whether to approve or reject each investor, thereby retaining full control over who sees confidential data on your fund.

To find out more about **Preqin Investor Network** and **Enhanced Fund Listings** and how they can help you, please visit:

[www.preqin.com/efl](http://www.preqin.com/efl)

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