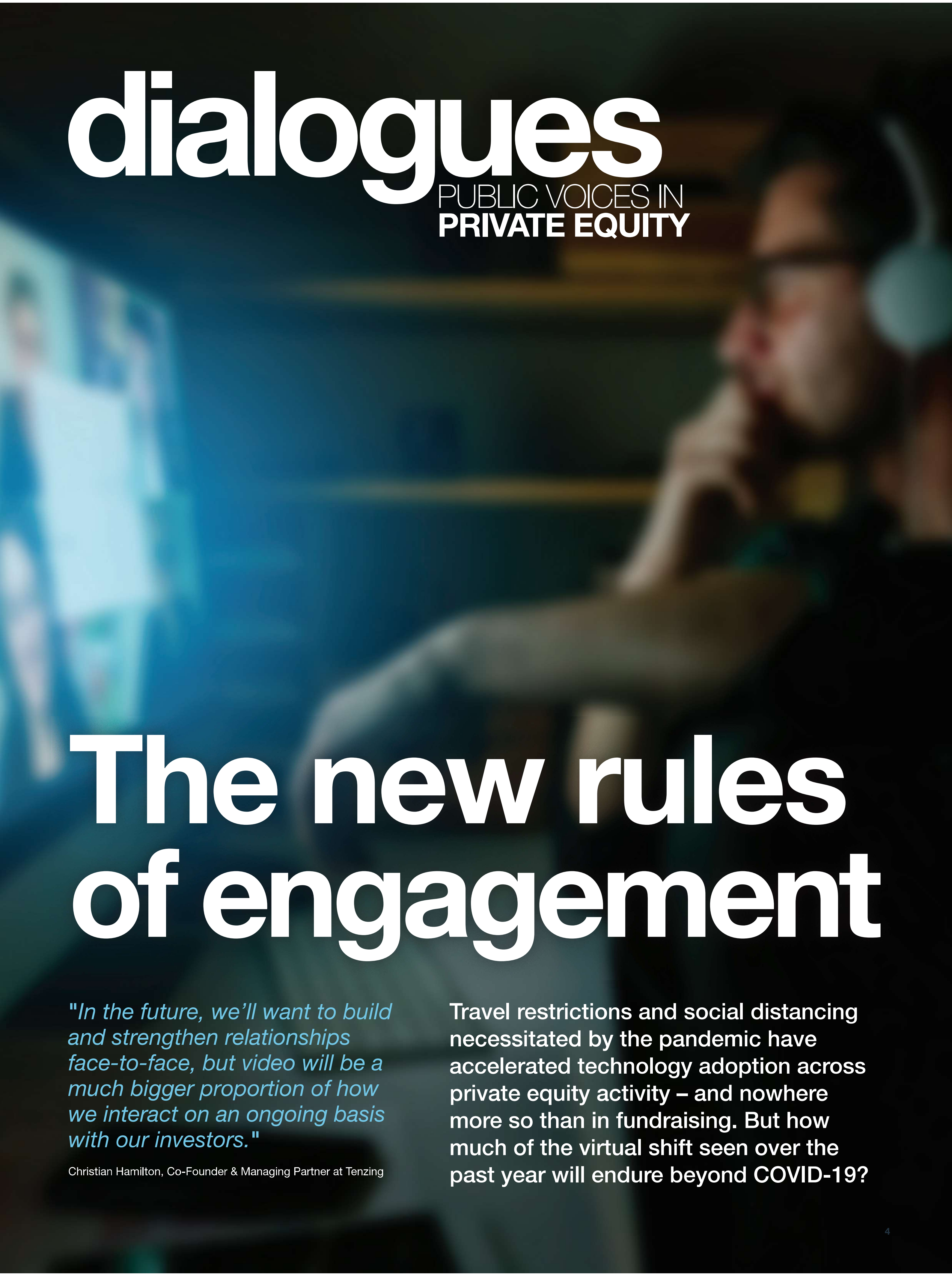


dialogues
PUBLIC VOICES IN
PRIVATE EQUITY

The new rules of engagement

"In the future, we'll want to build and strengthen relationships face-to-face, but video will be a much bigger proportion of how we interact on an ongoing basis with our investors."

Christian Hamilton, Co-Founder & Managing Partner at Tenzing

Travel restrictions and social distancing necessitated by the pandemic have accelerated technology adoption across private equity activity – and nowhere more so than in fundraising. But how much of the virtual shift seen over the past year will endure beyond COVID-19?

In dialogue - More about our contributors

Etienne Deshormes, CEO & Managing Partner at Elm Capital Etienne is Managing Partner at Elm Capital, a leading private capital advisory firm. Etienne has more than 25 years' experience in capital markets and corporate finance. Since establishing Elm Capital in 2004, he has built the firm on the principle that for each mandate, Elm Capital becomes an integral partner with the client sharing a common goal and keeping interests fully aligned.

Christian Hamilton, Co-Founder & Managing Partner at Tenzing Christian is Co-Founder and joint Managing Partner of Tenzing, a growth equity investor. Over the last fifteen years, Christian's backed many entrepreneurs and management teams, helping them grow their businesses and develop internationally.

Edward Lee, Partner at Proskauer
Ed is a Partner in the Private Funds team at international law firm Proskauer. He advises fund managers and investors on the formation of a broad range of funds. He is a regular speaker at industry conferences and a go-to commentator for issues and developments in the Private Equity space. He was named a Private Equity Rising Star for 2020 by Legal Week.

"Five years' worth of digital transformation in the space of a month or two."

Christian Hamilton, Co-Founder & Managing Partner at Tenzing

Impact to fundraising

For an industry that thrives on personal contact, COVID-19 has enforced significant changes in the way private equity operates. Travel restrictions, combined with the need for social distancing, have led to new, technology-driven ways of monitoring and managing portfolios and communicating with investors. And while some firms were already using digital tools, the pandemic has, according to Tenzing Co-Founder and joint Managing Partner Christian Hamilton, led to "five years' worth of digital transformation in the space of a month or two".

Fundraising - traditionally centred around face-to-face contact and the reason behind many GPs' and LPs' healthy Air Miles balances - has arguably seen the most significant impact. Global totals were certainly down last year: 906 PE funds raised US$535.2 billion in 2020, a 19% decrease by value in 2019 and a decline on the 1,135 volume, according to preliminary figures from Private Equity International. However, the fact that any firms managed to close funds has been down to a significant shift in the way the process has been run.

The virtues

Through 2020, Elm Capital helped to raise four funds, says the advisory firm's Managing Partner Etienne Deshormes. "We didn't have a single face-to-face meeting for any of these," he explains. "They were all virtual." Yet while the switch to video calls was born of necessity, the move has demonstrated some of the virtues of remote fundraising.

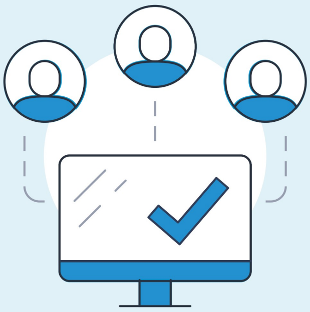
"We've had the tools to do this for many years, but no one used them," says Deshormes. "It has taken an unexpected event - the pandemic – to happen for people to do things differently and, in some cases, better." By communicating virtually with prospective LPs, GPs have, for example, been able to continue working with portfolio companies instead of travelling from city to city on the fundraising trail. It's evidently cheaper, saving on travel and hotel costs, as well as being more environmentally friendly. "You can also get a much higher attendance rate to meetings," adds Deshormes. "You can have an entire investment committee attend much more easily – so it can be much more efficient."

Hamilton agrees. Tenzing was the first buy-out house to raise a fund virtually – a feat it achieved within nine weeks after its early April 2020 launch. "It really allows everything to happen much faster," he says. "If you want to book a meeting for tomorrow, you know you can have, say, five people in completely different parts of the world on the same call. Using Zoom, we went from initial presentation to virtual onsite due diligence in around two weeks."

In addition, because people don't have to move physical locations, it's possible to meet more people in a shorter space of time. "You can do multiple meetings in a single day," says Edward Lee, Partner in the Private Investment Funds Group at Proskauer. "There is a lot of time-saving by doing things virtually rather than travelling."

Lee says the pandemic-enforced adoption of other tools has created further efficiencies in information sharing. "We had already been moving away from using internal Excel spreadsheets for document management and investor tracking, but we had to shift entirely to online collaborative systems almost overnight," he says. "Now, a platform allows our GP clients to see where the legal negotiations are in real time, what changes have been agreed and what is still in discussion. This will now be used for all our fundraising work."

Electronic signatures have also taken out some pain points. "We're saving a lot of paper," says Lee, "but, importantly, we can use these online tools to circulate the right documents to the right people to be signed – all at the push of a button."



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Etienne Deshormes,
CEO & Managing Partner
at Elm Capital

The challenges

Yet virtual fundraising is obviously not without its pitfalls. The temptation to cram in meetings is one of these. “It’s so easy to book in calls, you can find you’re doing them for eight to nine hours back-to-back, especially if you’re working from home, so the risk is you get burned out,” says Hamilton. “You need breaks in between and you have to balance the amount you’re doing in a day.”

Another is ensuring you have peoples’ full attention – much harder in virtual calls than face-to-face meetings where there are fewer distractions. Pitches and other presentations therefore need to be high energy and possibly even more well-rehearsed than usual. “You need to compete for LPs’ attention more if you are doing virtual meetings,” says Hamilton. “You want them to be fully engaged so you have to keep up the pace.”

"Interpersonal relationships are key to growing the business. People will continue to travel, just perhaps rather less than in the past."

Edward Lee, Partner at Proskauer

Fundamentals unchanged

Used well, video calls and digital tools have clearly increased efficiency, but the pandemic has not changed the fundamentals of fundraising, according to Hamilton. “You still need a good proposition targeting an interesting part of the market and team with a strong track record in your chosen strategy,” he says. “And, because you are asking investors to commit to blind pools, they need to trust you. You do have to have built a strong relationship with them in person before you raise your fund – the fundraising should be the result of many years’ work. LPs that came into our latest fund already knew us. It was the culmination of the relationship as opposed to the start of it.”

Deshormes agrees, adding: “Good marketing documentation is essential, as is targeting the right investor base for your strategy. You have to really create momentum so that all investors are moving together at the same time – you want to create a sense that if they don’t commit, they will miss out. It’s important that your existing investors come with you.”

For many of these reasons, first-time funds and those with less of a track record have found virtual fundraising more of a challenge than others, exacerbating the existing trend of capital concentration in some of the industry’s largest funds. Around 30% of the amount raised in the first nine months of 2020 went to the 20 biggest vehicles, according to Private Equity International.

The future

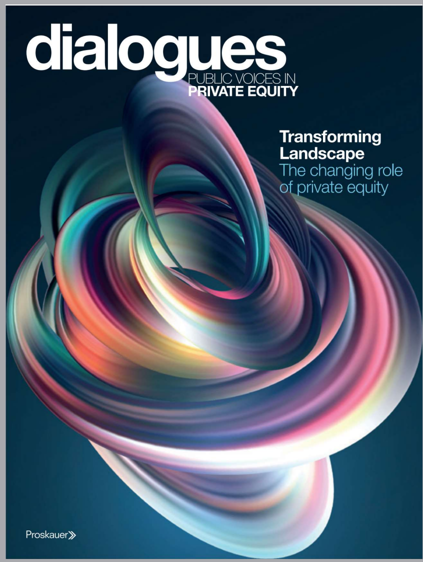
So, what will stick, given the lessons learned over the past year? "Previously, we'd do about 90% of LP updates in person, 5% would be phone calls and 5% by video," says Hamilton. "In the future, we'll want to build and strengthen relationships face-to-face, but video will be a much bigger proportion of how we interact on an ongoing basis with our investors."

The more routine adoption of video may well allow more frequent contact with investors – as was seen in the early days of the pandemic when GPs were providing regular updates to LPs on portfolio performance and the impact of Covid-19. Annual investor meetings will also likely offer LPs the option of online as well as in-person participation, enabling firms to reach more existing and potential investors.

Future communications look set to be a hybrid of virtual and face-to-face. But above all, relationship-building will revert to being done largely in person. "When you invest in a fund, you're really investing in people," says Deshormes. "That's why we'll see some meetings go back to being physical – investors are being asked to lock away their money for 10 years in a blind pool. They want to see people eye-to-eye."

"Fundamentally, private equity is a people industry," continues Lee. "Interpersonal relationships are key to growing the business. People will continue to travel, just perhaps rather less than in the past."

[1] https://www.privateequityinternational.com/download-flight-to-familiarity-intensifies-with-fewer-funds/ [2] Source: Preqin



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