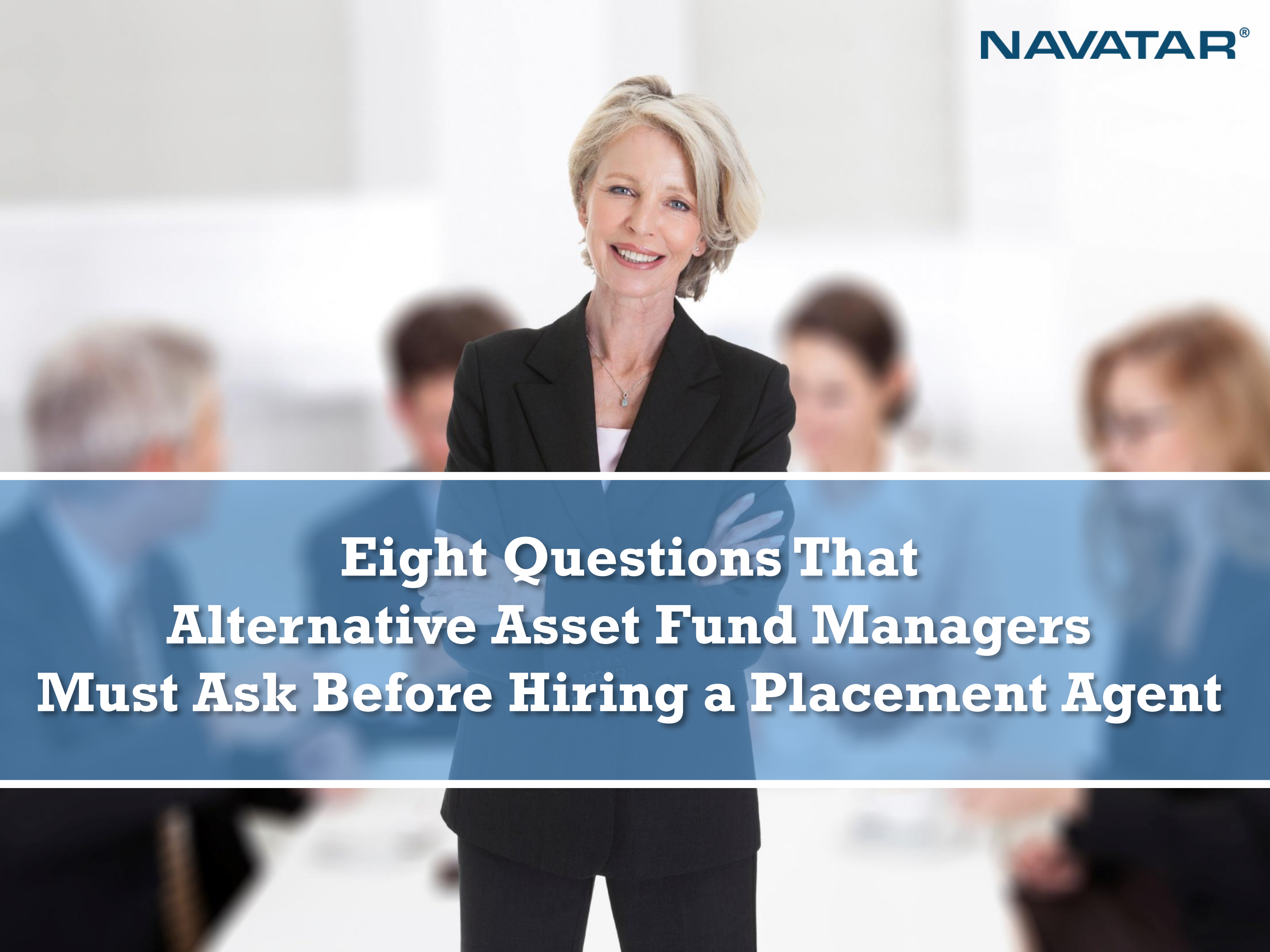

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Eight Questions That Alternative Asset Fund Managers Must Ask Before Hiring a Placement Agent

Placement agents are in vogue. There are tens of thousands of money managers and alternative asset fund managers that are totally dependent on them. In 2015, more than 50% of private equity funds that closed used a placement agent, according to [Preqin](https://www.preqin.com).

It isn't hard to understand why. Fundraising requires an intense focus over 17-18 months, not to mention specialization, relationships and physical proximity. A fund manager devoting more time to the fundraising process has less time to focus on implementing the fund's investment strategy. Furthermore, placement agents have a much broader reach and more up-to-date investor knowledge than most managers could achieve without a large internal marketing/sales team.

Scott Holley, Harken Capital

"When a placement agent gets a limited partner on the phone, do you really want to be the fifth or sixth fund that the agent is talking about?"

Placements agents range from specialized divisions of large brokerage firms to small and midsized independent firms. The larger firms work on six to ten fundraising mandates per year. Therefore, they prefer to undertake mandates that represent the 'low hanging fruit'—a fund that's easily marketable. Others are specialized based on certain asset classes, investor type, offerings, or geography.

To be successful, placement agents must leverage the intelligence from their previous mandates and track institutional investors and their investment preferences. Most of them use Navatar to manage multiple mandates and stay on top of investor activity.

We spoke to some of our placement agent customers to get their perspective on what it takes for a placement agent to succeed when working on a mandate.

This eBook incorporates those discussions. Read on.

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Question #1

WHAT IS THE BEST TIME TO START LOOKING

Fundraising should begin 6 months prior to your first meeting with an investor. "The right timing for your fundraising is a bit of a balancing act. It should start when you have some exits and a track record, not when you are about to run out of money. That is why building the portfolio to include some early exits can be very helpful. Once you determine the timing, begin the process six months before that date," suggests Jane Morris, Managing Director of Liora Partners.

Timing is very critical, according to Jane, since it takes at least a month, if not longer, to identify the right firm and at least 2-3 months to prepare the PPM, pitchbook, DDQ, Performance Analysis and any other collateral material.

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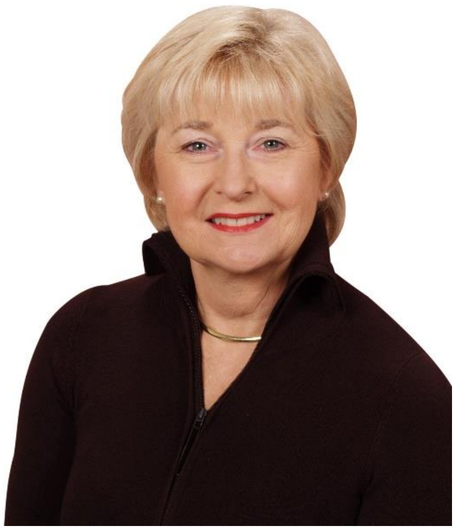
Question #2

WHAT IS THE AGENT'S CORE EXPERTISE

Your needs may be very different from other fund managers. "Some GPs may seek to partner with an agent to identify and nurture a select number of specific LP relationships. Other GPs may want to partner with an agent to market them more aggressively in a region that they have had no exposure to," says Nancy Nightingale, President of Further Capital. Different placement agents are equipped to handle different relationships, so funds must identify the ones most relevant to their goals, counsels Nightingale.

If syndicating co-investments is a significant part of your fundraising strategy, look for a firm with experience in raising direct deals. According to Dana Pawlicki, Managing Director at New York-based Stonington Capital, raising for directs requires:



Jane Morris, Liora Partners

> ***"Fundraising should start when you have some exits and a track record, not when you are about to run out of money"***

1) Ability to put together an effective presentation on a specific transaction; 2) Being able to act in a 30-90 day time window before any exclusivity period runs out; and 3) Reaching out to a specific sub-set of institutional investors who are equipped to quickly evaluate and invest in direct deals. "If you do not know that list well, you can waste a lot of everyone's time," says Pawlicki.

Beyond the basic due diligence, it is important to understand the firm's experience in raising funds similar to yours, both with respect to strategy and size of fund. For instance, with smaller funds, experience negotiating anchor investments or terms for early closers can be critical to getting a raise off the ground. Choose an agent who has experience with your type of fund. If you are a sub $500 million first time fund, choose a firm with experience raising sub $500 million first time funds.

Question #3

WHICH INVESTORS DO THEY HAVE ACCESS TO

The investor universe consists of large institutional investors, large family offices, fund of fund managers, high net worth individuals in addition to hundreds of consultants and advisors located throughout the world. Investor needs may vary based on type of investor or geography and placement agents may have pre-existing investor relationships based on those needs. For instance, Toronto-based Further Capital facilitates access to Canadian institutional investors.

Can the placement agent provide access to prospective LPs outside of your own outreach? “Quite often, the targets may be smaller or less well-known LPs that large, global placement agents or the GPs themselves typically

Nancy Nightingale, Further Capital

Quite often, the targets may be smaller or less well-known LPs that global placement agents or the GPs themselves typically neglect or may not even know are out there

neglect or may not even know are out there," says Nancy Nightingale of Further Capital.

"Different alternative strategies or products are better suited for some investors than for others. This potential fit is a function of variables such as asset type, current AUM, capacity and strategy," says Phil Cocke, CEO of New York-based Partner Capital Group.

Based on your strategy, Phil suggests understanding the channels where the agent has the greatest penetration - pension funds/E&F/funds of funds/insurance/ family offices/domestic/overseas – to see if there is a fit. "Does the agent have the ability to syndicate with other firms that will enhance the reach and do they have experience doing so?" asks Phil.

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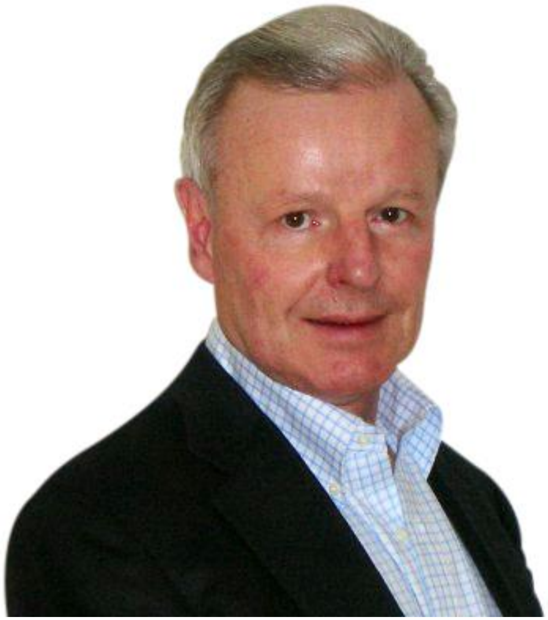
Question #4

ARE OUR INTERESTS REALLY ALIGNED

It is important to determine whether the success of your fund is important to the placement agent. “Will my firm be given proper attention? Is my management firm a priority or will the focus be on the ‘hot’ firm with little sales resistance,” counsels Brian Fitzgibbon, CEO of New Jersey-based Fitzgibbon Toigo Associates.

The agent must take on fewer mandates where they have high conviction around the prospects of the raise. “When I was a limited partner, I’d occasionally see placement agents that took on lots of assignments with the idea that only a fraction would work out. To me, that is short term thinking. When a placement agent gets a limited partner on the phone, do you really want to be the fifth or sixth fund that the agent is


Philip Cocke, Partner Capital Group

> *Different alternative strategies or products are better suited for some investors than for others*

talking about?" asks Scott Holley, Managing Director at Harken Capital.

Determining any direct conflict of interest is critical too. "Does the placement agent currently work with other GPs who offer competitive strategies to your own," asks Nancy Nightingale of Further Capital. "Conflicting GP relationships can be confusing for prospective LPs when a placement agent markets multiple 'best-in-class' managers operating in the same space."

Make sure the placement agent has no conflicting mandates. If so, it may be good to understand where they are in their fundraising process, to make sure there is no overlap.

Question #5

DO WE HAVE A CULTURAL FIT

Different placement agent groups have different personalities (even within them), ranging from highly professional to highly aggressive. In addition, with varying personalities in alternative assets funds, there can be egos on both sides of the table, and problems can result from anything from lack of chemistry/ basic personality clashes to differing views on travel. “On one extreme, I have seen GPs who want to drive to Boston from New York, and at the other extreme, you hear stories of some agents billing for what was viewed by the client as excessive luxury travel. Any of these areas can lead to issues over a two-year relationship if the basic ‘fit’ isn’t there,” says Dana Pawlicki of Stonington Capital.

Brian Fitzgibbon, Fitzgibbon Toigo

> ***"Is my firm a priority or will the focus be on the 'hot' firm with little sales resistance?"***

There must be a "meeting of the minds" on what the relationship will be like beyond the black and white letter of the contract. Even though difficult issues can stress the best of relationships – it is important that you are able to successfully navigate through these in a businesslike and commercial manner.

Fundraisings happen over a long time period and you need to rely on one another with open communications. You're going to be spending a great deal of time together, over one to two years, so make sure the fit is there.

Question #6

DO THEY UNDERSTAND COMPLIANCE NEEDS

Placement agents are SEC-registered broker dealers, regulated by FINRA, and/or other Federal, State and international agencies and authorities. For instance, AIFMD affects the ability of alternative investment fund managers across the globe to access investors based in the European Union.

"The placement agent must satisfy the regulatory and compliance requirements for the markets they operate in, which is increasingly important in this environment," says Patrick Campbell of New York-based Perth Advisors. They must have a culture committed to legal, ethical and regulatory compliance, including limitations on ability to make gifts and restrictions on political donations.

Question #7

DO THEY SEE THINGS THROUGH THE LP LENS

"Too often, GPs focus on what they think is most interesting about their fund rather than what LPs think is most important to know and understand," says Scott Holley of Harken Capital.

An LP, typically, is a very different type of organization from a GP. Most GPs may not have put themselves in LP's shoes. Having a placement agent with professionals who have experience as general partners as well as limited partners helps ensure that the two worldviews are understood in executing the marketing assignment.

Question #8

IS THE AGENT A TECHNOPHOBE

Fundraising, being extremely competitive, requires intense focus and discipline - there's a lot of activity with so many investors. Missing a single email or a follow-up could mean losing millions in a commitment.

In addition to relationships, placement agents must have a solid institutional memory so they can leverage intelligence from their previous mandates, track shifts of personnel at institutional investors, as well as changes in sector appetite. In addition, they must keep the fund manager in the loop around the progress as well as key information.

Patrick Campbell, Perth Advisors

> ***"They must satisfy the regulatory and compliance requirements for the markets they operate in, which is increasingly important in this environment"***

Since placement agents don't have a lot of staff or resources, they must use state-of-the-art fundraising technology, such as [Navatar](), to run a disciplined process.

If the placement agent is running mandates using spreadsheets, it probably means very few activities are being coordinated between their professionals – not a good thing for fundraising.

If the agent is using a system based on outdated technology, chances are that it is not being used at all and your fundraise will be executed without a systematic process.

Make sure you ask questions about how the placement agent uses technology and how it will help getting your mandate fulfilled on time.

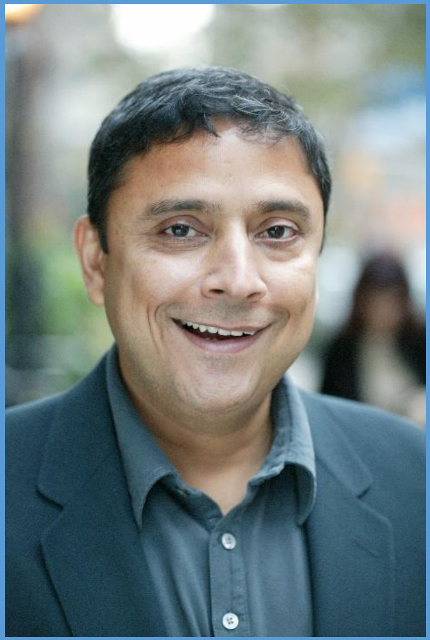
WOULD YOU LIKE TO SEE A NAVATAR DEMO

The best placement agents use Navatar to manage their mandates and investor relationships.

The best fund managers use Navatar to manage their fundraising and investor relations.

Would you like to see a personalized Navatar demo?

SIGN UP FOR DEMO



AUTHOR

Alok Misra is the CEO at Navatar, used by hundreds of alternative asset fund managers, placement agents, and investment bankers, worldwide. Navatar is the industry's first Connected Growth Platform for alternative asset firms, helping them *lead*, not *lag* competition.

Before Navatar, Alok was a management consultant, working with Deloitte and PwC.

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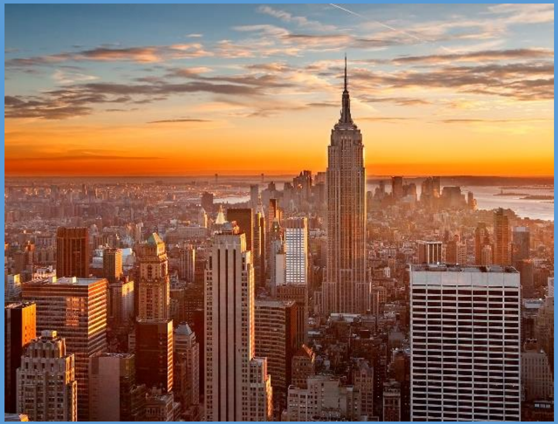

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