



A FUNDRAISING CAROL: GHOSTS OF LP'S PAST, PRESENT & FUTURE

Late on December 18th, the partners of Findadeal, Leverage & Flippit enjoyed a brandy together after putting the finishing touches on the PPM for their upcoming 4th fund. They could already taste the success they would reap from this new \$1B fund, confident that the forthcoming management fees would allow them to support the lifestyles they had built. The cleaning woman swung open the door as they were downing the last of the celebratory libation. They were startled when she raised her haggard face and said, "Tonight you will have three visitations, pay heed to their messages." Then she closed the door and moved on. After a moment, their laughter burst out as they each headed back to their offices to wrap up and head out.

Cannon Findadeal was the first to call out his goodbyes. He was anxious to get on his way to his home in Vail for the holidays and a much needed ski vacation. Can flung his coat on and stepped into the empty elevator on the 58th floor, texting his wife that he was on his way. From the LCD elevator screen he heard a familiar voice. When he looked up, he was stunned – it was playing a home movie from what looked to be the early 90's. There they were, the three of them at Flippit's kitchen table working out the plan for their first fund. How young they were! They hadn't left their old firms yet and they were so hopeful that they'd raise that \$55M first fund. They'd done everything they could to raise that fund, tramped to every city to meet with any investor who would take their meeting. The vision of carry shone like a diamond in the distance. He smiled at their naïve toast to hard work, good luck and the trust of their investors. Can was caught up, mesmerized by the memories that filled the screen when, just as suddenly, it flipped back to the next day's weather map. He shook his head, "Man, I really need this break" he thought, as he nodded to the doorman and headed out into the snowy street.

Seymour Leverage jumped into a cab. He was going to be late and Barry would give him hell. He hated that Seymour drank at the office and they had been bickering lately about how much time work was encroaching into their life. Seymour had promised Barry that he wouldn't have to travel like last time; the LP's would all fall into line like dominoes. Their firm had received lots of press; they'd bought some very visible companies in this last fund. He was a well-known dealmaker, at the top of his game. "After all," he thought, "we're a top quartile firm and even though we haven't yet made any distributions from the last two funds, those schmucks are lucky we even let them in this time, especially given how oversubscribed it was last time."

As the cab swung around the corner, it screeched to a halt, the crowd spilling into the street. "What's happening?" he asked. "Damn, I thought they were on the West Side still. I can't believe they're over here already" snarled the cabbie. When Seymour pressed further, the driver told him the unions had been bussing people into the city all evening preparing for a huge protest rally. "They're sick of having their pensions cut and their jobs threatened and they're taking those fat cats to task." Seymour looked out the window to see the crowd full of angry faces with signs calling for resignations at the

pension fund that was one of their top investors. “Get me out of here,” Seymour pleaded as he hunched out of sight and dialed Barry’s cell.

Will Flippit’s new young wife was expecting twins and, with ex-wives and children from three prior marriages to support, this new larger fund and the fees it would generate were critical to his comfortable sleep continuing. He was glad it hadn’t been hard to convince his partners that they should step up their demands for a higher management fee and more carry. They had settled for too little with only 25% on their last fund raise two years ago. “Enough catering to the demands of whiny LP’s for more transparency” he had said. He was proud of his call to shut out from the next fund those who wanted “access” to him, he was a powerful man, with many demands on his time – he didn’t have time for all that. “This time would be different,” he thought.

He stopped by the Club for one more drink on the way home. As he climbed the steps to the entryway, Will saw through the window quite a circle of folks gathered by the fireplace. He recognized many of the faces. They had been investors in several of his funds. He enthusiastically reached for the doorknob, certain of his welcome once inside, but it seemed stuck. He tugged again. No, in fact, the door seemed locked. Puzzled, Will rapped on the door and no one seemed to hear him – so he went to the window to knock where his investors were gathered. As he looked in the window, Will saw that they were gathered around a pile of his newly completed PPM’s and he was filled with pride. But, as he watched, his pride withered in the flames as they tore off pages of the PPM and flung them into the fire along with expletives attached to his name. He couldn’t believe they thought he was “a Flippin’ pig” “A hog I tell you!” and other vile names. When he returned to the door to confront them and defend his name, the door opened with ease, but this time there were doormen barring his way. The investors had voted and he had been banished from the Club. Trying to explain that there had been some mistake, he was tossed into the cold landing with a thump at the curb as the icy sleet pelted his upturned face.

Seymour and Can were already in Will’s office when he returned. They, too, had come to see if the PPM’s had yet been sent out and were as relieved as he to learn that they were still piled on the conference room table. What could they make of the odd cleaning lady with her sullen face and foretelling remark? Of the elevator LCD displaying their long-gone enthusiasm for the business, the visions of raging mobs ready to throw out the leaders of the pension plans or the investors who seemingly had locked them out of the Club? Coincidence? They were unwilling to tempt the fates and set their sights on reworking their plan for Fund IV.

Long into the night, the three men worked and, with the dawn, they read aloud the new elements of their plan to banish the ghosts of failed relationships with their Limited Partners. Going forward they vowed to follow these Golden Rules:

1. **Listen with Interest.** Talk with your LP’s, regularly, not just when you need their checkbook. Let down your guard, ask each LP what you could do to build a relationship of trust, really listen with interest and then commit to do what they have asked.

2. Care for and Feed Your LP's. Set aside regular time to build relationships with your LP's. Above and beyond the required reporting and annual meeting, informal communication with your LP's makes them feel part of the effort and invests them with you for the duration. A crucial aspect for the success and the longevity of this relationship is that both sides bring more to the partnership than just the obvious. LP's, besides their financial commitments to GP's, can play a key role as an advisory board to the fund manager, often having an extra view on overall economic developments, adding significantly to the complete picture.

3. Be Honest and Forthright. Don't play hide the ball or sugarcoat bad news or pretend things are not as they are. Early warning helps to defuse the ticking time bomb that can damage your relationship beyond repair. Every LP identifies dishonesty, half-truths and covering up as the worst destroyers of trust. You can rebound from bad news but only with transparency.

4. Remember, the "P" is for Partner. Limited Partners have a choice where to invest their funds. Even if your fund IS a top performer and you think they should be grateful that you "let" them invest in you, their confidence and willingness to invest with you deserves your sincere appreciation and gratitude. Say "Thank You" often and remember how you feel when a portfolio company you invested in appreciates your investment, guidance and confidence. Genuine and heartfelt appreciation builds relationships. Treat your LP as a partner.

5. Cultivate Lasting Relationships. Raising your next fund is substantially easier if your existing investors return to you. Cultivating new relationships, in advance of your next fundraise, is important, but retaining and strengthening existing relationships is the first objective. Don't neglect your existing investors while you recruit new ones. Your existing investors are your best references.

6. The Buck Stops Here. Every failed investment can be explained away with a myriad of excuses. Humility and self-reflection go a very long way in an industry filled with uber-confidence and differentiates you from the blame-layers. Your LP's chose you because they believed you could hit a home run for them. They have to answer for their investment in your fund. If things go wrong, say you are sorry. Explain what happened, but do not make excuses – there is a difference. Investors trust partners who accept responsibility as well as praise.

7. Flexibility is Survival. Limited Partners want you to succeed. Your success is their success. An essential part of any relationship is a sense of aligned interests. This is a long-term relationship that means more than simply squeezing out the last dime. Flexible relationships with mutually aligned interests are the ones that survive in all conditions.

Don't get Scrooged, when it comes to your next fundraise. In GP/LP Relationships, the only rule that counts is ... Do Unto Others ... This rule is easily the best and first rule to improve your relationship with your Limited Partners and your fundraising success for years to come.