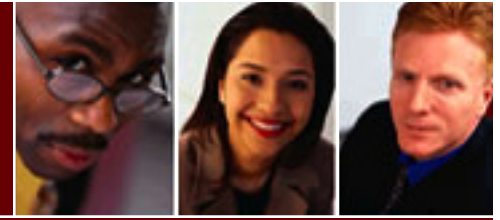




**Building Businesses...  
One Relationship, One Career at a time.**



## **AUTHENTIC INVESTOR RELATIONS = BIG MONEY**

Fund raising by private equity firms (including both buyout and venture capital firms) slowed dramatically in Q4 2008 and has been crawling through the first two quarters of 2009. Based on statistics from the LP Source database and Thomson Reuters, private equity and venture capital fundraising declined more than 26% compared to one year ago. Even funds of funds and secondary funds, normally considered well-positioned to benefit from market chaos, posted weak fundraising totals, down 55% and 36%, respectively. A commentary in PEHubWire.com noted that 20% of LP's state that they intend to decrease their allocation to private equity as an asset class. Heightened competition from GP's for declining allocations from LP's makes it essential that firms build and strengthen their relationships to ensure a successful fund raise.

According to a bi-annual survey conducted by Collier Capital, 84% of LP's have chosen not to reinvest with an existing GP relationship. Equally important, the survey revealed that LP's expect approximately 30% of existing GP's to be unable to raise a new fund over the next 7 years.

How is your firm prepared to compete for these declining allocations, retain your existing investors and, not only survive, but thrive in its next fundraise?

As fundraising has become more challenging and the reach of placement agents has become uncertain, more of our clients have elected to create or enhance their focus on improving relationships with their existing and prospective LP's. The demand for Investor Relations professionals has grown dramatically and we have developed targeted, successful recruiting strategies for numerous clients in these roles whether the firm is concerned with their short or long term fundraising success.

Strong, focused relationships with LP's is essential to all GP's – large and small, venture capital, private equity, mezzanine, funds of funds and secondary funds. Without a distinct way to distinguish your firm and to communicate it clearly and effectively, fundraising will be haphazard and uncertain. Having been helpful to a number of private equity and venture capital firms in staffing their existing or newly formed Investor Relations teams, here are some tips for improving those relationships and how to design a meaningful Investor Relations role in your professional team.

### **Putting the “Partner” back into Partnerships**

Increasingly, LP’s have complained that GP’s have taken them for granted. Not too long ago, I attended a panel discussion on “How to Improve LP/GP Relationships.” At the time, I wondered how this panel discussion could possibly last longer than a couple of minutes. In my mind, the answer was: “Be nice to the people who give you money” and “Be nice to the people who make you money”. It seemed like an easy open-and-shut kind of session.

What I heard from the people around me and from the panelists on the dais, frankly, shocked me. Had no one in this room heard of The Golden Rule? The fellow sitting next to me (a GP) muttered under his breath, “They ought to be glad we even let them into our fund. They should shut up, give us the money and wait for their payout.” I glanced at his name tag so I could track how his next fundraise went with such an attitude! Likewise, I heard grumblings from LP’s about how the GP’s were just getting “fat and happy” off the management fees, although few of those LP’s were willing to either push back or to walk away from opportunities to invest in those same funds. I also heard GP’s of less renown firms complain that LP’s weren’t really investing in emerging managers, that they followed the herd and invested in repeat funds simply for CYA purposes rather than truly seeking out and investing in innovative managers. The world has changed since that conference and savvy firms are sharply focused on how to truly improve LP/GP relationships from both sides of the fence.

I was disheartened to read a recent line in a trade column which said: “Fundraising is fast becoming a modified version of Cloak and Dagger, pitting GP’s vs. LP’s...” The phrase “cloak and dagger” conjures images of spies, deception and assassins. How did relationships founded in the concept of trust fall into such language of distrust?

In the opening lines from the movie, *Casino*, Robert DeNiro says; “When you trust someone, there is no other way. You give them the keys to everything that’s yours, otherwise what’s the point”. For me, those words sum up a lifetime of relationships for the very essence of any relationship is quite simply, trust.

Given the sizeable number of LP’s who report declining allocations to this asset class and the increasing number of LP’s choosing to abandon GP’s they have previously invested with, you can’t afford to ignore the relationship part of your business. Adding or strengthening your Investor Relations team is critical in distinguishing yourself from the pack of other private equity firms competing for this limited capital supply.

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## DESIGNING AN EFFECTIVE INVESTOR RELATIONS PROGRAM

### What is Your Objective?

- **Manage Existing Investors?** Firms of all shapes will benefit from enhancing and improving relationships with existing investors. Given that 84% of LP's say that have discontinued an investing relationship with existing GP's (or will do so) and their overall pool of capital committed to the asset class is shrinking, strengthening relationships with your existing LP's is tantamount to your success. If you can retain your current investors, you will have an easier time raising your next fund.
- **Attract New Investors?** Who wouldn't benefit from attracting new investors? With the increased competition for the shrinking pool of capital, make sure your firm stands out from the crowd. Create a clearly defined message about why investing in your fund is critical to the LP's success. Communicate it early and often and understand what attraction you can offer to prospective LP's.
- **Damage Control?** Is there damage control to be managed through improved communication either internally with your LP's or externally for your portfolio companies? Perhaps a forthcoming default by a portfolio company needs careful planned disclosure or your LP's could benefit from a primer on dealing with confidentiality issues regarding handling information requests from their stakeholders. Building the bridge with your LP's that lets them view you as a resource builds long term loyalty.
- **Communication is the Key to Unlocking Fundraising Doors.** Many firms have been able to successfully tout their high multi-year IRR's based on 1999 vintage funds. As we approach the end of that 10 year period and those numbers drop out of the ten year reported average, investors will increasingly question the returns they can expect. Actively educate your LP's on the big picture of returns.

LP's are increasingly under pressure to ensure their investments are also making non-pecuniary returns. Communicate with them in a way that allows them to satisfy their stakeholders on issues of financial stewardship, social responsibility, environmental pressures, etc. Co-opt the press in a meaningful media effort to eliminate the “vulture” perception surrounding private equity investments so that your LP's will be able to resist pressure to withdraw from the asset class. Focus your communications strategy to enhance your firm's perception as a creator of jobs in a local or global economy.

A strong IR professional can help your LP's and the community understand:

- Who you are – making your people and your brand inseparable
  - Why your firm is an integral part of their investment strategy
  - How you execute your strategy and its competitive advantage
  - What an investment in your firm does to enhance their firm's success
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**Timing Is Everything.**

- *Are you fundraising now or will you be soon?*
- *Are you facing the prospect of secondary sales of LP interests?*
- *Will this be a short term effort focused on attracting new money or a long term approach to deepening trust and communication?*
- *Are senior professionals in your firm transitioning out so that the transfer of relationships is critical?*
- *Where is the fundamental value of this Investor Relations role in this and future funds?*

Whether you need to add new LP's in a hurry, and are seeking an Investor Relations professional with a ready rolodex of accessible LP's to attract a commitment, or are thinking about your next fundraise 3 years from now, the care and feeding of your LP's is what separates you from the competition for this dwindling resource. Don't assume your LP's remember you and what you do. They hear from many firms and are often invested in 60-80 funds. When polled, LP's repeatedly say the better firms see them often, bringing new information about the market and the industry (not just their portfolio) and are invested in the relationship. They each want to know what the GP did to add value and what it will continue to do in the future. Increased transparency and early communication is a uniformly valued trait. LP's consistently say that if they are blindsided about a portfolio problem in the paper, it's too late and they lose trust in the GP, and assume they are hiding other failures.

Virtually every LP indicates that they are receptive to meeting GP's when they are not in the market for a fund, as a way to get to know them, without pressure, and that they appreciate a GP who has taken the time to know them enough to customize their pitch when they are, in fact, in the market. A skilled Investor Relations professional leading your team in executing a relationship, communication based strategy makes your firm stand out from the others who only reach out to their LP's with perfunctory reporting or with their hand out for the next fund commitment.

**Building Upon The Strengths of Your Team.**

The fundraising environment is increasingly Darwinian. The process of successfully and smoothly raising your next fund begins long before you approach investors for their commitment. The most successful firms have a strategy in place for how the communication is handled between partners and the Investor Relations professional (or team). Sometimes the Investor Relations role is to deploy a deep rolodex to open doors to new investors. Other times the role is to build relationships with existing investors. And, yet, other times, the role is to develop and communicate the consistent story to the LP community or the media. Which of these elements are you presently handling well and which could use some enhancement?

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Some questions our clients have wrestled with in refining the specifications for an Investor Relations professional include:

- *Will existing Partners carry out some of these tasks or share them with an IR hire?*
- *How will existing relationships be managed as compared to newly created ones?*
- *Will we add a senior professional to make introductions to new investors?*
- *Will a mid-level professional manage reporting/inquiries?*
- *Who has the time and, importantly, the personality for relationship management?*
- *How frequently and, in what manner, will each investor be “touched”?*

Proactively fostering confidence with your LP's works to anchor existing relationships and keeps you in the forefront with prospective investors. In this changing power dynamic between GP's and LP's, communicating with them when you are not fundraising raises your profile as a real partner. An ongoing relationship will attune you their commitment patterns, abilities to fund capital calls, needs for distributions. It will also enhance their willingness to make critical introductions to other investors, increasingly critical to building your investor base in a competitive market.

A structured Investor Relations plan will help to train your partners in the relationship process for both LP's and deal partners. Consistency in advancing your story, linking and blending news of your portfolio (both its successes and its challenges) into a consistent thesis of your investment strategy, is another powerful benefit of a consistent Investor Relations operation. Being in front of your LP's is critical to the depth of the relationship and merely reporting doesn't allow LP's to know your firm, your partners and your importance to them. Meaningful differentiation equals fundraising success in this climate.

### **The Right Touch is Your Invisible Advantage.**

Far from a “cost center”, effective and meaningful Investor Relations is the edge that separates a successful private equity firm's fundraising efforts from those of the “also ran” group in the marketplace. LP's have increasingly tired of only seeing and hearing from their GP's when they have their hand out looking for the next commitment to an even bigger fund. Having a well thought out and seamlessly executed Investor Relations strategy gets prospective LP's to see you in a favorable light. It also promotes your firm to potential portfolio companies so that they can begin formulating an impression of your role as a partner in their business' growth. The development of relationships (with your investors as with your portfolio companies) should be second nature, nurturing them in a way that is invisible while it's happening and yet makes the obvious absence of a relationship with your competitors stand out boldly.

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With that in mind, attracting and retaining an Investor Relations professional who is aligned with your firm’s objectives means thoughtful consideration of questions such as:

- *Is this a one-time fundraising target to achieve or an ongoing relationship role?*
- *Will this person (or members of this team) be on a partnership track?*
- *How will he/she be compensated and will there be carry?*
- *What, if any, other roles could/should this professional fill within the firm?*
- *Can or should any of this function be outsourced?*
- *How will you benchmark these efforts and measure success?*

These are some of the many questions firms are pondering as they look to improve LP relationships. We have taken an active role with our clients to define what improved relationships with their LP’s will look like and how to achieve that goal. As an active partner with our clients, we identify talented professionals to build and enhance the Investor Relations of small, medium and large firms all across the spectrum of the alternative asset investment community.

A solid Investor Relations program builds and strengthens real relationships and makes the critical difference in your firm’s fundraising success. Email me at [dpalmieri@pinnaclegroup.com](mailto:dpalmieri@pinnaclegroup.com) for more tips on improving your GP-LP relationships or for help in building your Investor Relations team.

Sincerely,



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*Building businesses ... one career, one relationship at a time.*



*Denise Palmieri is the Director of Client Relations for Pinnacle Group International, an executive recruiting firm specializing in recruiting investment and investor relations professionals for the private equity and alternative investment community.*

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