APEX INVEST

# Alternatives Fundraising
*Processes Review*

# Introduction

Remarkably, we believe this report is the first of its kind. Most current advice in this area is based on, at best, limited evidence from a handful of fundraisings or, at worst, hunches and/or guesswork. We feel the industry needs more robust advice on the tactics and strategies that have greatest potential to improve the fundraising process.

Covering both closed- and open-ended funds, we examine the strategy, process, and execution of fundraising in alternative asset funds. In doing so, **we seek to answer three key questions:**

- **What is the market standard when it comes to fundraising strategy, execution and process (if, indeed, there is a standard)?**
- **How do closed-ended and open-ended funds differ?**
- **Which strategies, tactics and tools have the greatest potential to improve fundraising efficiency and success?**

# Methodology

The report presents the findings of a substantial, global survey of market participants on the strategies and processes deployed in private markets fundraisings.

The data on which the report is based is derived principally from an online survey taken by participants in both the closed-ended and open-ended segments of private markets during 2023. Participants were pre-qualified and were invited via online links sent via a number of channels, including email and LinkedIn. The online survey was supplemented by several in-person interviews with private markets participants, conducted by senior members of the Apex IR & Marketing Solutions team.

# Executive summary

### Demographics

Nearly 300 firms responded to our survey. They range in size from startups to multi-billion-dollar AUM powerhouses and come from all of the common alternative investment fund types (PE, VC, real estate, hedge funds, infrastructure, impact etc.). Almost half are headquartered in North America, with the remainder concentrated in the UK and mainland Europe.

### Fundraising strategy

For both open-ended and closed-ended funds, the senior leadership team were most likely to have overall responsibility for fundraising strategy.

Closed-ended funds tended to set their fundraising targets according to investor demand, whereas for open-ended funds, it was much more likely to be a function of the strategy's expected capacity.

Third party marketers or placement agents were used by around a third of closed ended funds, but their usage by open-ended funds was much lower. Those that did use them reported mixed results. Choosing a placement agent is a very important decision!

### Investors, meetings and touchpoints

Which documents do funds send to new prospective investors in order to secure that all-important first meeting? It's still the marketing deck for both open- and closed-ended funds. Closed-ended funds, however, tended to require more meetings and significantly more overall touchpoints with investors before securing an allocation.

### What should you invest in, ahead of a fundraising push?

Our study investigated the effects on "conversion rate" of various fundraising strategies, tactics, and tools. While this data set was smaller (only one-third of fund managers supplied this data), and unverifiable, it still provides food for thought. For example, investing in video content and producing a reference report could significantly improve the chances of converting an investor prospect into an actual investor.

We also asked managers to rate the impact on their fundraising of several common marketing materials e.g. teaser, marketing deck, and PPM. Both open- and closed-ended funds rated the marketing deck most important, but there were big differences elsewhere. Overall, closed-ended funds rated the importance of their documents far higher than did their open-ended counterparts.

### Marketing documents

Despite their importance, many firms are only beginning the work on their documents one to three months before a fundraise. This is not enough time to do your fund justice. We recommend starting at least six months before a raise – and earlier than that if you are conducting investor or market positioning research.

Some funds create multiple versions of their decks. It's a good idea to fit documents to their audience, but doing so can become a logistical challenge if you get too granular. We would suggest an upper limit of two or three versions being appropriate for most managers.

We also found that, despite significant investor demand, only half of closed-ended funds (and less than 20% of open-ended funds) produce a standalone ESG or sustainability report. We expect this number to climb.

### Number of closes

We asked closed-ended managers a series of questions about their closes. Almost half held four or more closes for their most recent fund. First closes took place at various percentages of the hard cap. The most popular point (roughly a third of managers) to have a first close is when 50%-75% of the hard cap has been reached.

# Demographics

# Demographics

## The firm

### Type of firm and location of HQ

In total, 266 responses were received to the survey. The vast majority (80%) of respondents were fund managers. Nearly half (48%) of respondents worked for firms headquartered in North America.

FIG. 1: Respondents by type of firm worked for[1]

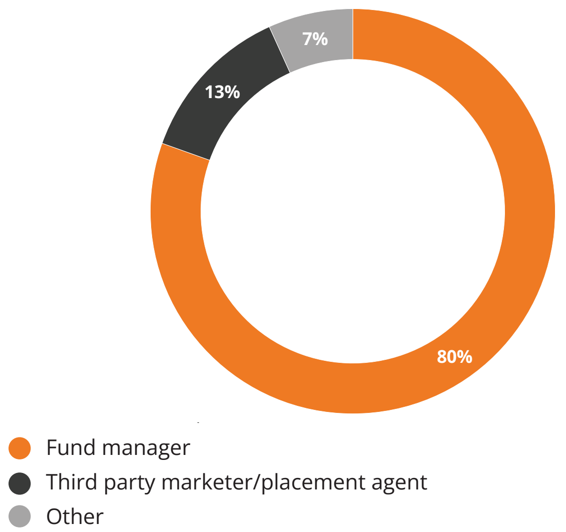
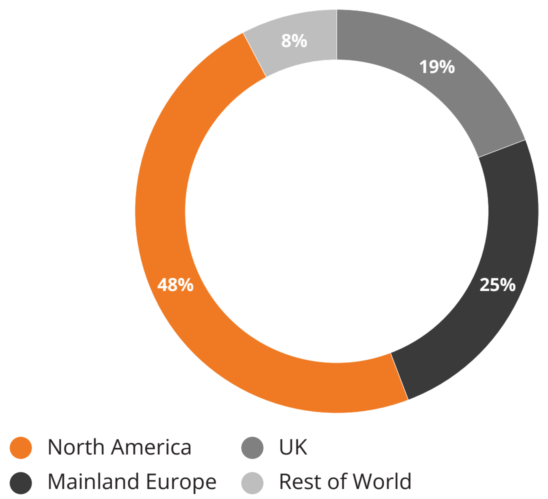



FIG. 2: Respondents by firm headquarters[1]




### AUM of firm and number of funds raised

All sizes of firms were represented in the survey: 42% of funds had AUM of $1 billion+, and 39% had AUM of under $250 million. 5% of respondents represented firms with AUM of $50 billion or more.

Survey respondents had typically experienced multiple fund raises. While 18% were completing the survey for their first fund, 44% of respondents stated they had held a final close on six or more funds.

FIG. 3: Firms by total AUM[1]

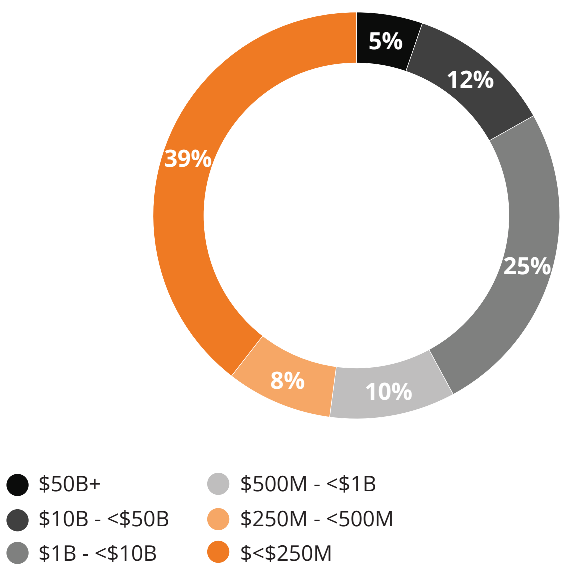
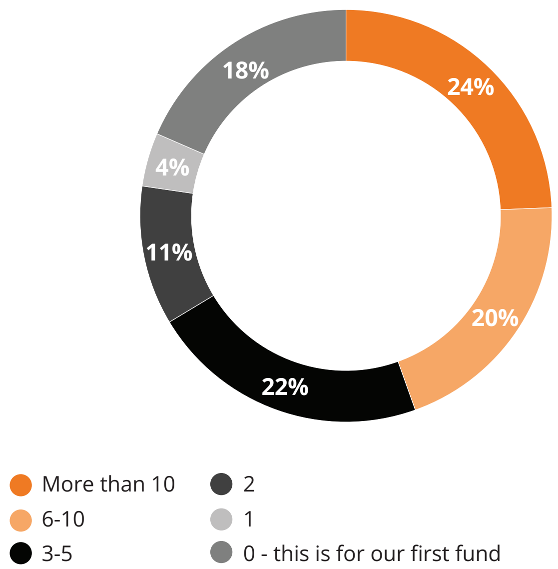



FIG. 4: Firms by number of funds raised (i.e., that have held a final close)[1]




[1]*Due to rounding, in some instances percentages may not sum exactly to 100%.*



## Surveyed fund

### Type of fund

Respondents were asked to provide data for the most recent fund they raised capital for.

65% of the funds described themselves as closed-ended, with the remainder being open-ended or evergreen vehicles.

Almost half of the respondents classified the last fund they raised as private equity. Hedge funds and private debt funds were the next two most popular choices.

### Size of fund

There was a broad range of fund sizes – as could be predicted from the range of firms surveyed. When asked how big their last fund was, 64% of respondents stated $500 million or less, but over one-quarter of the sample was represented by funds of $1 billion or above.

FIG. 5: Type of last fund raised[1]

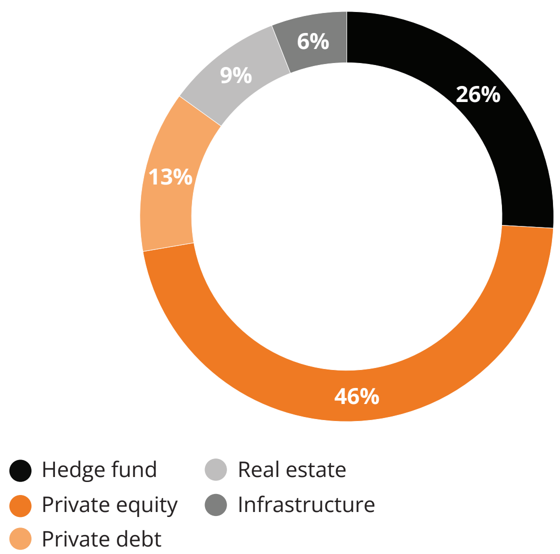



FIG. 6: Size of last fund raised[1]

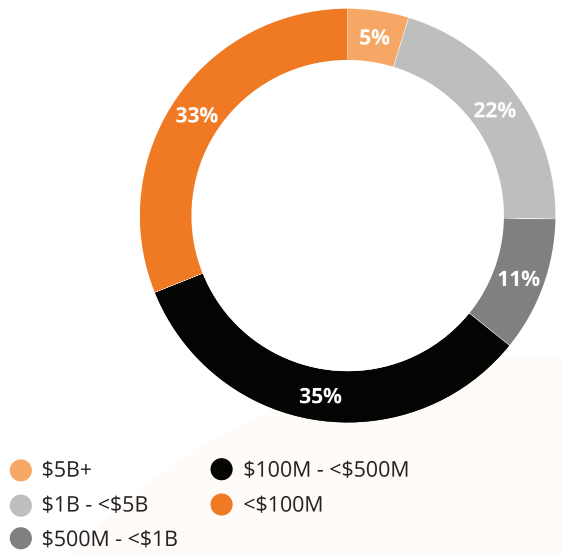
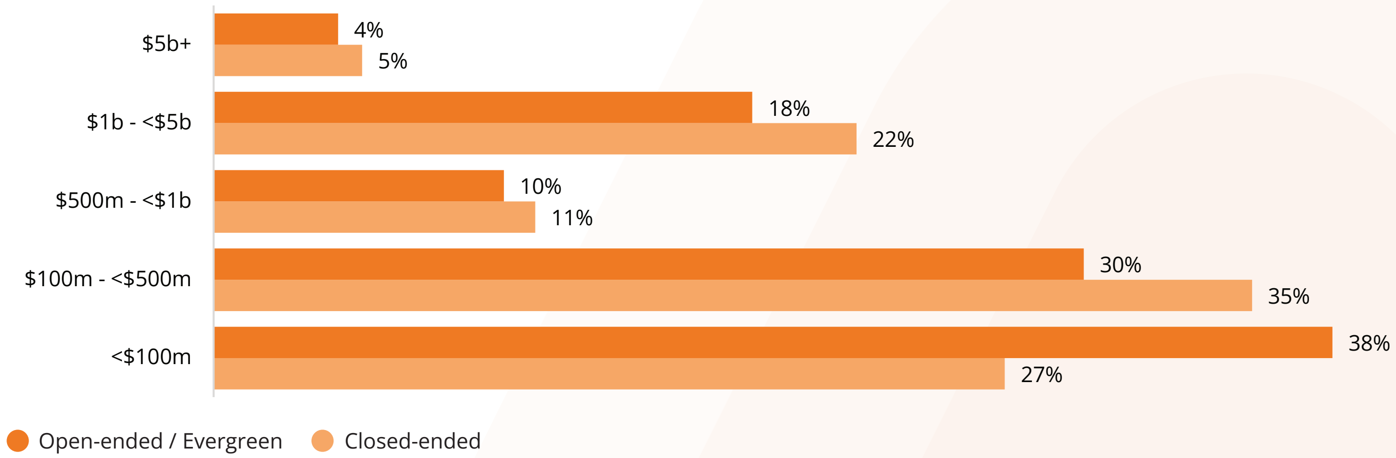



FIG. 7: Fund size of last fund raised, closed-ended vs. open-ended/evergreen



# Fundraising Strategy

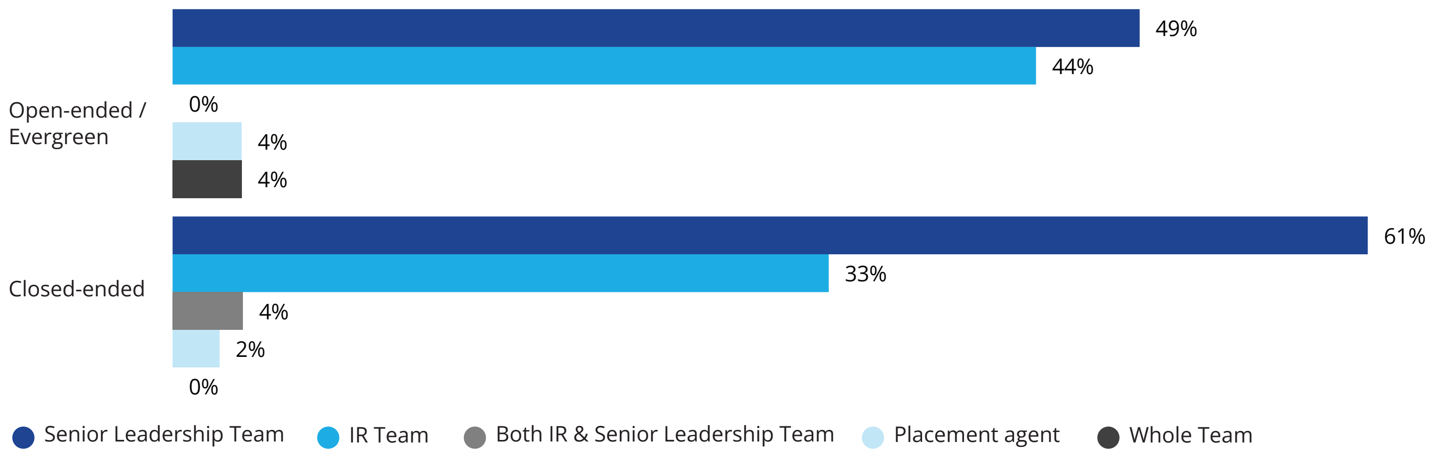
# Fundraising strategy

## Who runs the show?

The senior leadership team is most likely to have overall responsibility for the fundraising strategy. For closed-ended funds this was true for over 60%. For open-ended funds it dropped to 49%. The IR team was the next most likely: 44% for open-ended funds and 33% for closed-ended vehicles.

Why is the IR team more likely to be entrusted with overall fundraising strategy in open-ended funds? With their liquid structures and ability for investors to redeem commitments, there is a greater requirement for permanent IR roles (such as the classic head of institutional and retail sales) at hedge funds. The more "built-out" the function, the more likely they will be given overall control.

FIG. 8: Who has overall responsibility for the fundraising strategy (closed-ended vs. open-ended/evergreen funds)?




## Setting the target and hard cap

### Closed-ended funds

Managers of closed-ended funds mentioned a variety of methods by which a fund's target and hard cap are arrived at, ranging from firm/fund strategy, an assessment of market size, capacity to deploy, through to a fairly simple increase on the prior fund's size.

For funds two and above, this latter method (setting target by reference to the prior fund) is what most fund managers deploy. Topics like market sizing, capacity, team size, pipeline, etc. are then deployed to justify the fund target, not to actually arrive at it in the first place.

Setting the hard cap is much more a function of investor demand and/or negotiations with investors during the fundraising itself. While no respondents put it this crudely, in practice there is a large element of "what we can get away with" when it comes to hard cap. Again, arguments derived from market sizing, capacity, team size, pipeline, etc. are deployed in justification of the desired hard cap, rather than arriving at it in the first place.

### Open-ended funds

For open-ended funds, the arguments were typically built around the trading capacity of the strategy. It should be no surprise that this is a major factor in determining fund size. The majority of open-ended funds in the survey are hedge funds.



Many hedge fund strategies are built on generating returns from mis-priced assets and, in illiquid markets, there tends to be more mis-pricing. That lack of liquidity can vastly reduce the investment universe and viable trade sizes, both of which would limit sensible fund size.

## Placement agents and third-party marketers

### Use of placement agents

NOTE: For this report, we will use the term "placement agent" to represent all similar functions i.e. third-party marketers.

The vast majority of open-ended funds (92%) do not use placement agents. This could be explained by their need to build a permanent in-house capital raising team. Amongst managers of closed-ended funds, the situation is very different: One-third reported using a placement agent.

Unsurprisingly, the use of placement agents peaks for strategies where closed-ended fund structures are more common. 36% of private equity funds used a placement agent. By contrast, only 11% of hedge funds reported using placement agents. Their use is even less common amongst real estate funds, with only 8% having used one on their latest fund.

FIG. 9: Did you use a placement agent/third-party marketer (closed-ended vs. open-ended/evergreen funds)?

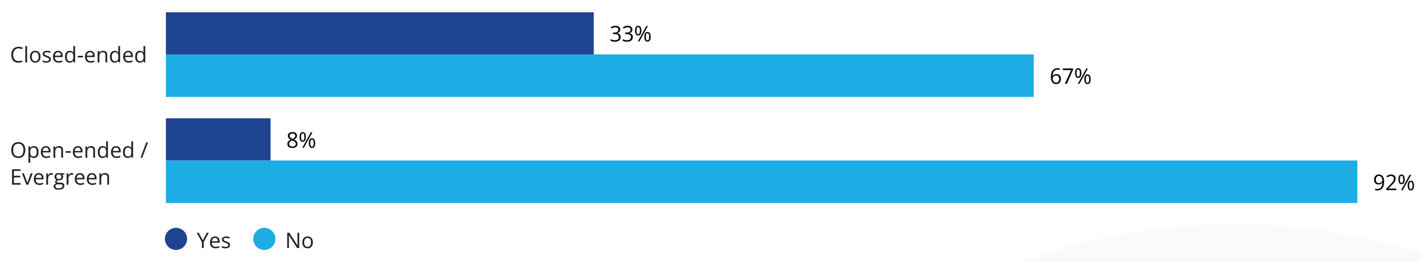
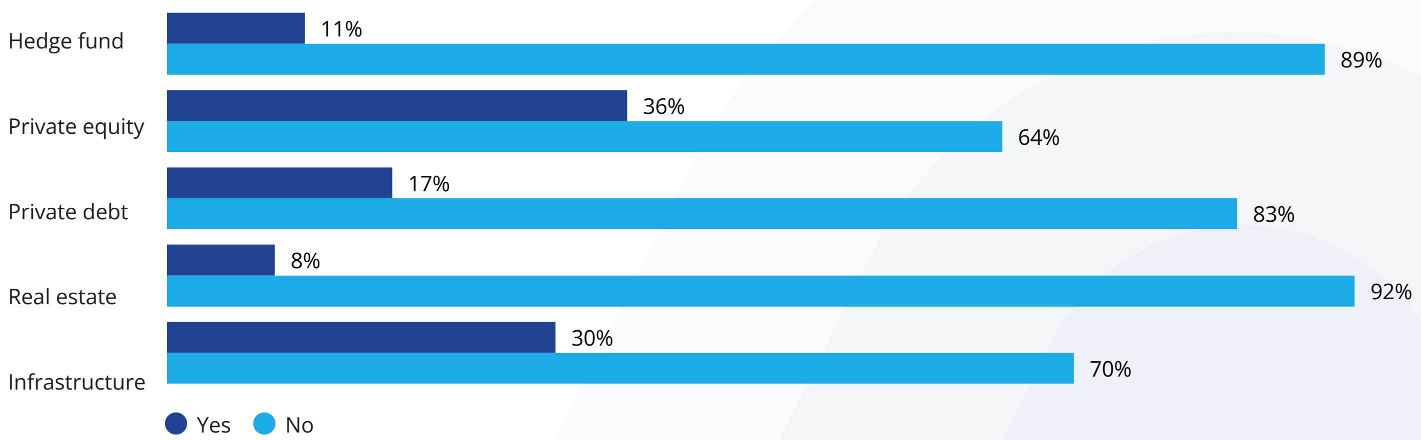



FIG. 10: Did you use a placement agent/third-party marketer (by fund type)?



## Do placement agents deliver?

Placement agents do not come cheap. While fee structures and levels vary, a success fee is usually a strong element. For closed-ended funds this is typically a low single digit fixed percentage of capital raised, whereas for open-ended funds it tends to be a percentage of fees earned from that capital (including from the performance fees). Many firms also charge a fixed monthly retainer which may or may not be rebated out of any performance fees. Total fees can be high, often running into the millions for larger funds or those with a large new capital requirement. The pay-off should be a better outcome in terms of fundraising success. Does our survey bear this out?

It depends...

Overall, only 14% of respondents rated the outcome/results of using a placement agent or third-party marketer as excellent. The majority rated them as either good (31%) or acceptable (27%) but, for almost a third of respondents, the outcomes were either poor (10%) or very poor (18%).

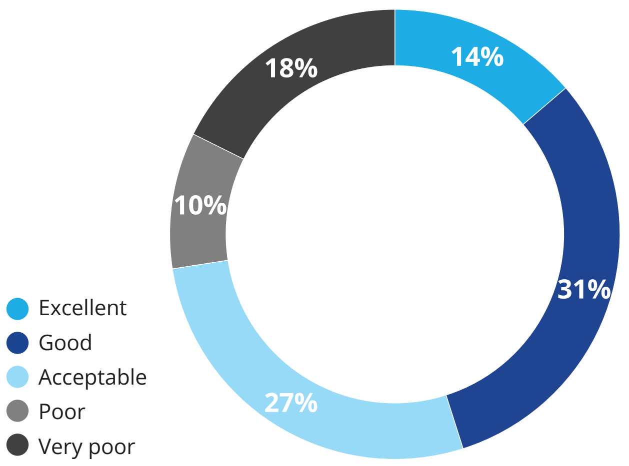
This demonstrates how important it is to choose the right placement agent for your fund. Claims need to be checked and checked again. And don't settle for just a track record of successful raises – it's just as important to understand under which circumstances a prospective placement agent has underperformed. That information may be more difficult to obtain...

## Quality of service provided by placement agents

We have seen that perceived quality of fundraising results varies materially across placement agents. So where does this differentiation come from?

Placement agents will often lead with the quality of their relationships. This is often what fund managers are really buying – access to conversations that would not otherwise be able to have. Although 76% of managers said this was either good or excellent, 9% described this as poor.

FIG. 11: how would you rate the outcome/results of using the placement agent / third-party marketer (all funds)?



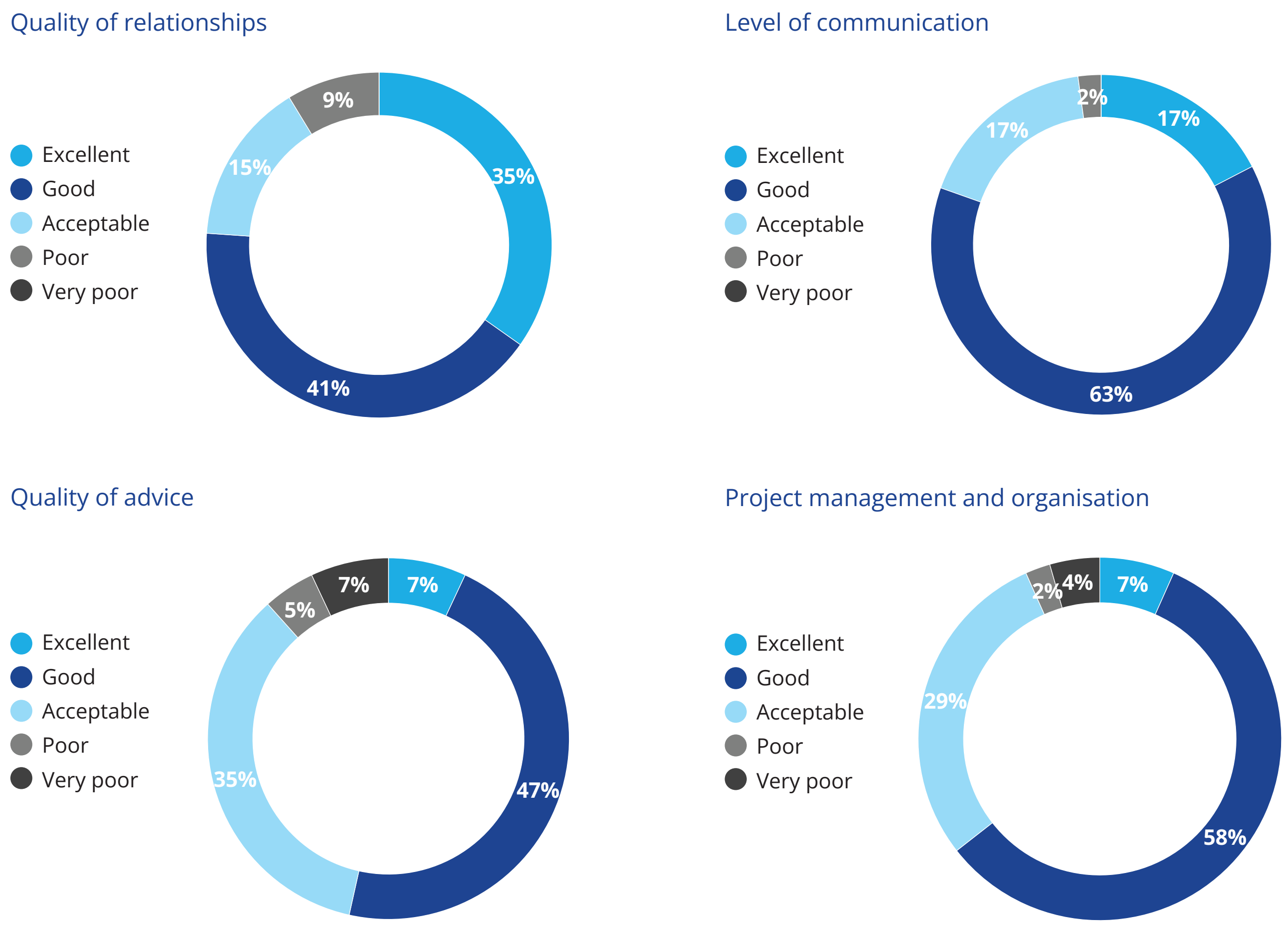

Level of communication was rated very high, with 80% saying this was either good or excellent. Only 2% of managers ranking their provider as poor in this area.

Placement agents should know the market inside out but only 53% of fund managers rated the quality of advice they received from their agent as good or excellent. Most ranked it as merely acceptable, with 12% stating it was poor or very poor.

Despite agents rating themselves highest in this area, only 64% of fund managers ranked project management as good or excellent. These are processes that cannot be allowed to fail. Any of the 7% of agents regarded as poor or very poor in this area will likely not be getting Fund II.



FIG. 12: How would you rate the following aspects of using the placement agent / third-party marketer (all fund managers)?



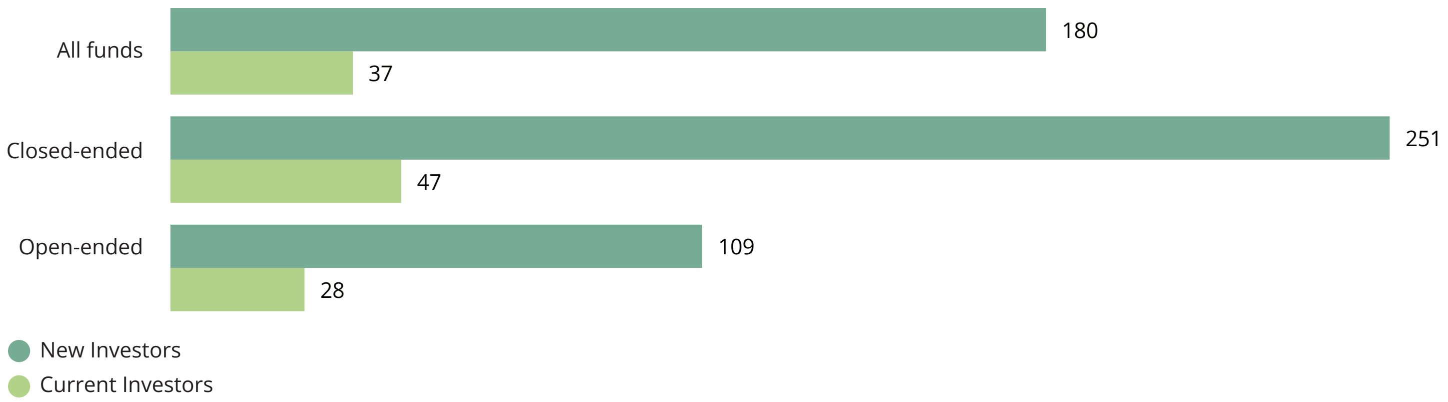
# Investors, meetings & touchpoints

# Investors, meetings and touchpoints

## How many investors?

Managers of open-ended funds approached fewer investors than those managing closed-ended vehicles. This is as expected: closed-ended funds need to raise all their capital in one go (albeit over several closes), but open-ended structures can spread their efforts over a greater period.

FIG. 13: How many current and new investors did you approach to invest in the fund?




## Securing the first meeting

What documentation is required to get the all-important first meeting? [44]% of managers send a marketing deck. 33% send a teaser. While a two-page teaser is a good way to create interest, do you really think an investor that doesn't know you is going to spend 45 minutes wading through your deck? Our advice – keep it short and to the point. And stand out by using video – it's an easy, engaging way to show investors what you have and only 1% use video for this right now.

## Number of meetings

Overall, fund managers can expect an average of four formal meetings before a new investor commits. For open-ended funds it was three, versus five for closed-ended funds. When an investor is asked to lock away their capital for several years, additional scrutiny is unsurprising. For existing investors, fewer meetings were required – both for open-ended and closed-ended funds.

FIG. 14: Which document do you typically send to "get the meeting"?

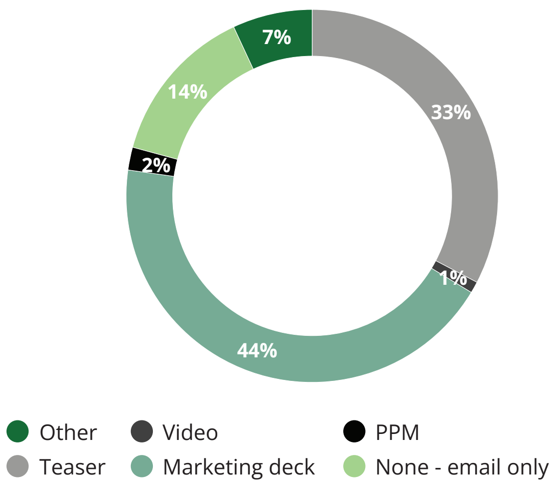
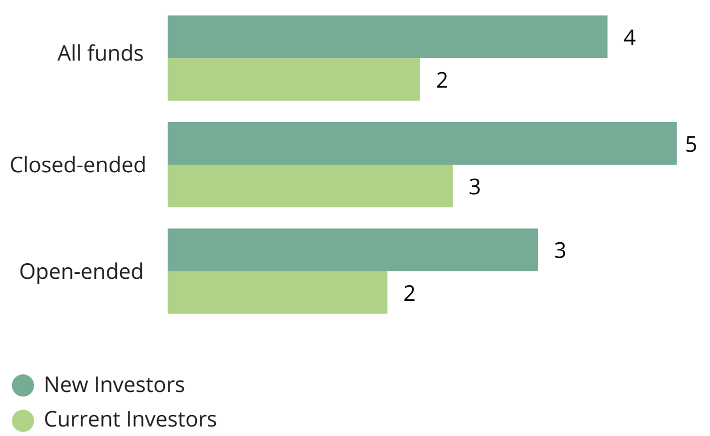



FIG. 15: How many formal meetings did it typically take, before an investor was ready to commit/allocate to the fund?




## Touchpoints

Formal meetings are far from the only interactions between investors and managers. Calls, emails, or website visits are all "touchpoints" on the journey to an allocation. And these touchpoints are important. Buyers of any service (whether it's putting in a new kitchen or allocating to a fund) need to feel comfortable with their counterparts. We encourage fund managers to engineer as many touchpoints as feasible – with one important caveat: each touchpoint should deliver value for the investor.

Let's look at a practical example of a situation that could benefit from additional touchpoints:

- You have a strong introductory call with a new investor
- The investor requests access to your data room

**What should you do?**

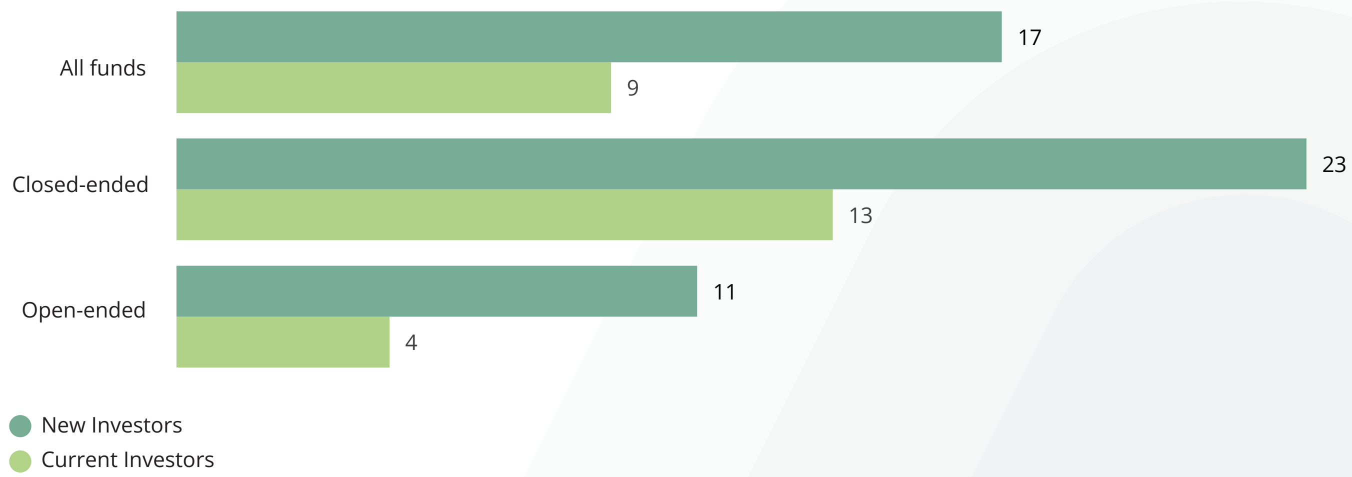
The temptation is to grant access and update your CRM to show they have moved down the funnel. They are interested, they want more information, we should give it to them.

**We would suggest inserting additional touchpoints before you let them loose amongst your fulsome collection of folders, excel sheets, PDFs etc. That could look a little like this:**

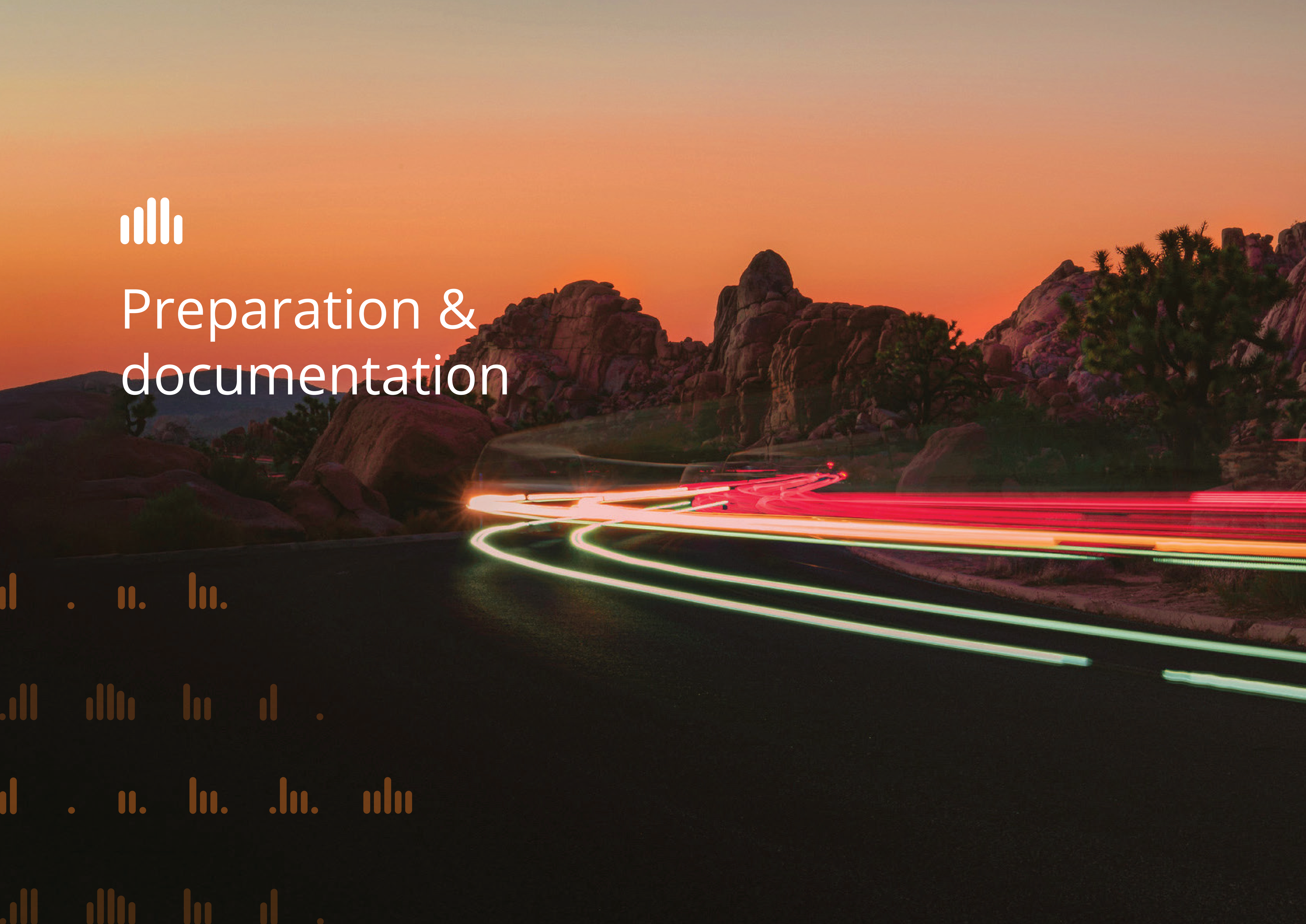
> "Before I give you access to the full data room, why don't I send you Document A and Document B? These are probably the best place to start. Once you have reviewed, we should cover any initial questions on a call."

It's easy to lose control of an allocation process. Sensible touchpoints give you more control.
As for the touchpoint survey data, a similar pattern to what is seen for meetings holds true. Closed-ended investments require more touchpoints than open-ended ones, and new investors require significantly more touchpoints (around double the number) than existing investors.

FIG. 16: How many total "touchpoints" (calls, meetings, emails etc.) did it typically take, before an investor was ready to commit/allocate to the fund?



# Preparation & documentation



# Preparation and documentation

## What to invest in ahead of a launch?

The majority of closed-ended funds invest in multiple marketing activities prior to fundraising.

These investments were less common amongst open-ended funds.

FIG. 17: Which of the following did you invest in, prior to fundraising (closed-ended funds)?

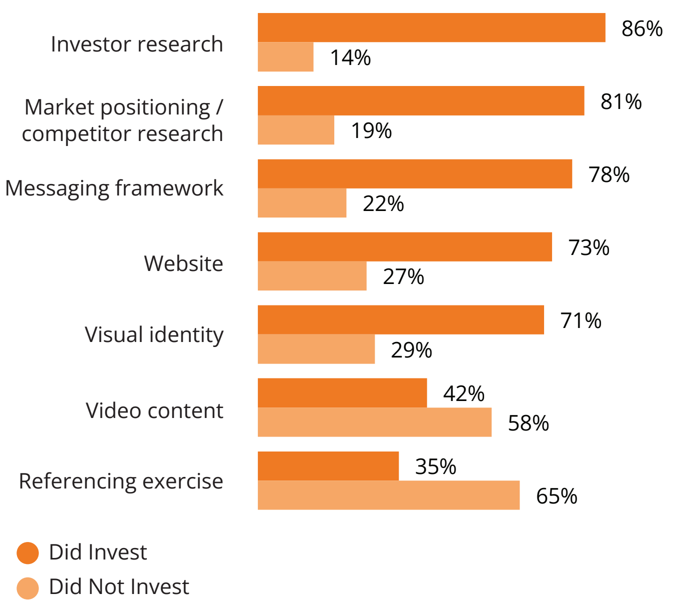
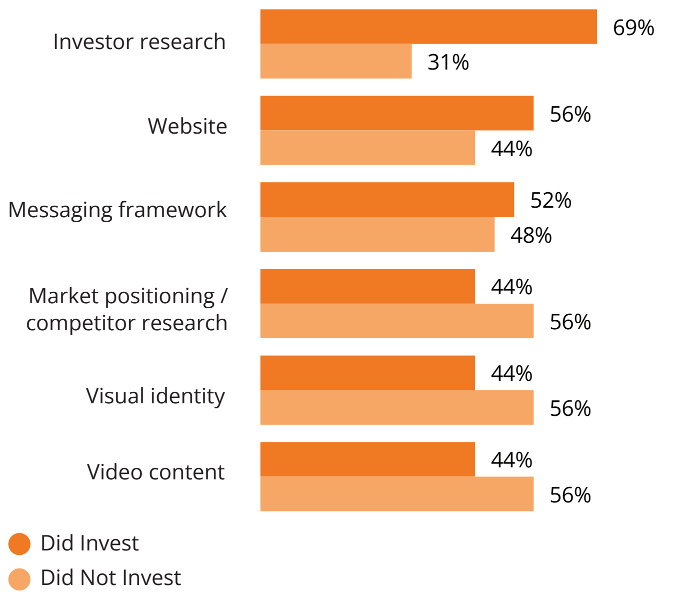



FIG. 18: Which of the following did you invest in, prior to fundraising (open-ended/evergreen funds)?




## What "moves the needle"?

### Investor conversion rates

Some of the survey's respondents supplied data on the number of investors that were approached and the number that invested. We gathered this data both for current investors and new investors. This enables us to calculate their "conversion rate" – the percentage of approached investors that ultimately invest in the fund. This offers a reasonable proxy for the overall effectiveness of the fundraise BUT we must treat this data with caution:

- Under a third of respondents supplied this data
- We have no means to verify this data
- The question is more complex for open-ended or evergreen funds which do not have defined fundraising periods.

### Are fund managers missing out?

A majority of managers did not invest in video or a referencing exercise. Was that wise? The data suggests it was not. Managers of closed-ended funds that invested in video content had significantly better new investor conversation rates (29%) than those that did not (19%), a more than 50% uptick. Those that invested in a referencing exercise saw a rise in conversion rates from 20% to 27%, a 35% increase. The industry is missing a trick here.



Managers of closed-ended funds that invested in their messaging or visual identity enjoyed higher new investor conversion rates than those that did not. In both cases, new investor conversion rates doubled or near doubled. A similar, albeit less dramatic, pattern was observed for those managers that invested in their website prior to fundraising, where conversion rates increased from 17% to 25%.

New investor conversion rates improved for those managers of open-ended funds that invested in all areas, apart from visual identity and messaging framework, where conversion rates were broadly flat.

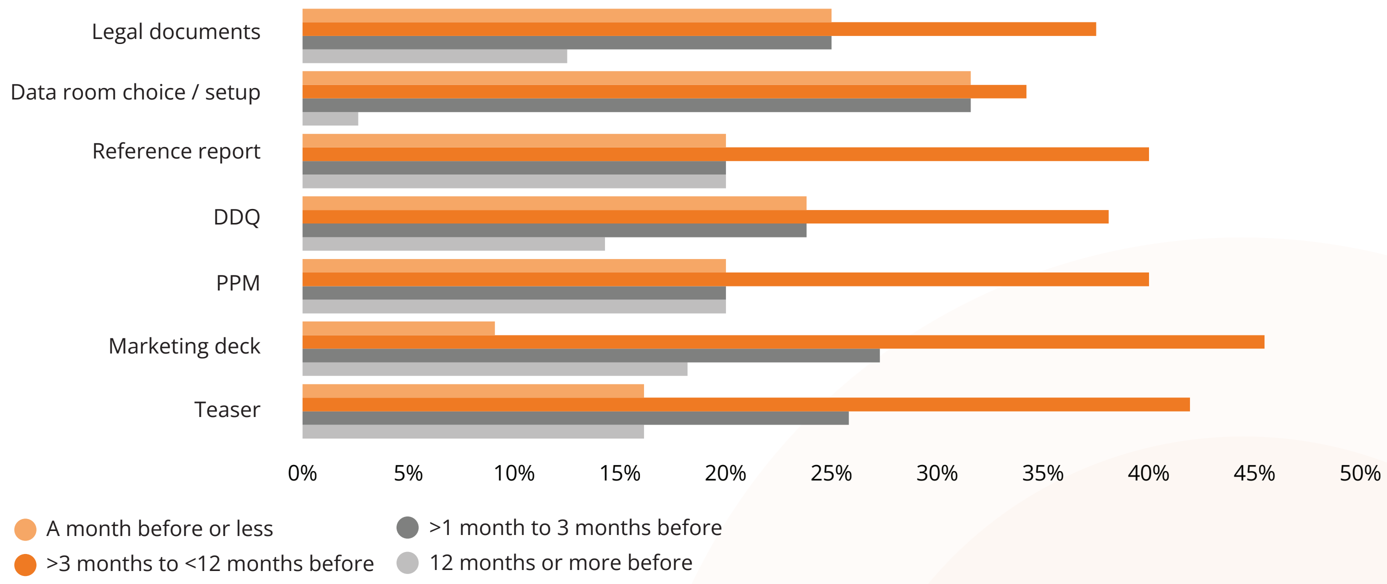
## Documentation

### When to start the process

Why does your IR team look so stressed just before a fundraise? If they are like ~40% of our respondents, it may be because they only started preparing the documents between one and three months before launch...

We recommend the process begin at least six months before a raise – and if you are undertaking proper market and perception research, even earlier is preferable. Those that started earlier on this work tended to have higher conversion rates.

FIG. 19: How many months before fundraising launch did you begin work on the following?




### ESG/Sustainability Reports

Environmental, Social, and Governance (ESG) now plays a vital role in LPs' investment decision-making. Consequently, ESG due diligence has become an increasingly important and exacting part of the fund review process, with many LPs wanting to see a well-integrated ESG process and reporting. Despite this, a mere 19% of open-ended funds produce a standalone ESG/Sustainability report. For closed-ended funds the number is better, but even here it is still only 51%.

Want to compete with the big players? Across all respondents, 82% of managers with AUM of $10 billion or above produce a stand-alone ESG/Sustainability report.

FIG. 20: Do you produce a standalone ESG or sustainability report?

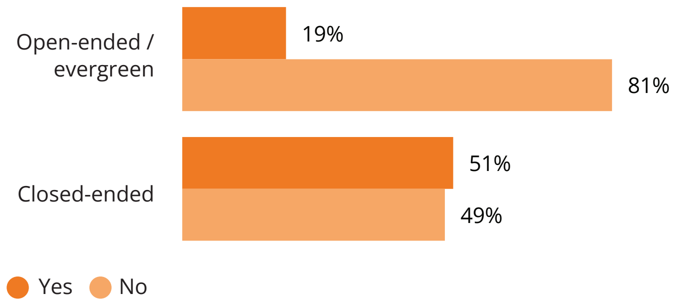
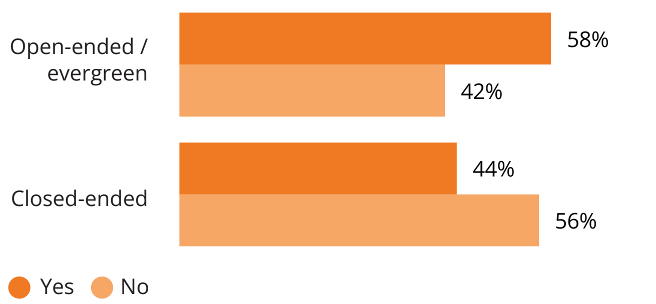


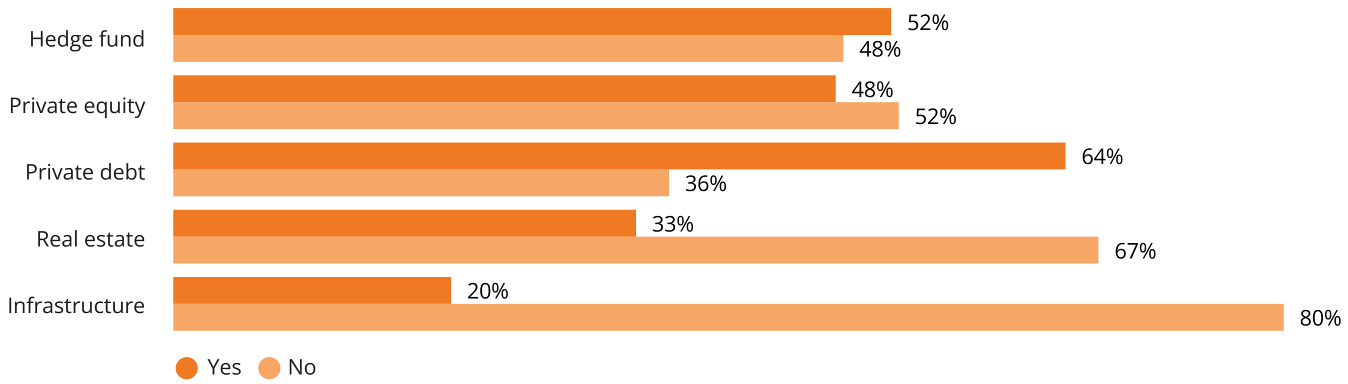

FIG. 21: Do you have separate presentations for different investor groups/geographies (closed-ended vs. open-ended/evergreen)?




## Marketing presentations – does one size fit all?

We are often asked whether there should be multiple versions of marketing decks or fundraising presentations. Within the industry, opinions are divided on this topic. Across all funds, 49% of respondents said they do prepare separate presentations for different investor groups and/or geographies, while 51% said they do not. Open-ended funds 58% are more likely to do this than closed-ended funds 44%. Almost two thirds of private debt funds have multiple deck versions.

FIG. 22: Do you have separate presentations for different investor groups/geographies (by fund type)?




## PPMs

Ah, the Private Placement Memorandum ("PPM"). Maybe yours is called an Offering Memorandum and enjoys the acronym "OM"? Or Investment Memorandum, or "IM". When should you send it out? The most popular time to issue your PPM is at the outset of a raise but only 41% do it then.

The market overwhelmingly favours electronic distribution of PPMs. In fact, 79% of respondents said they only issued an electronic copy. 18% made both electronic and hard copies available.

FIG. 23: At what stage in the process did you issue your PPM?

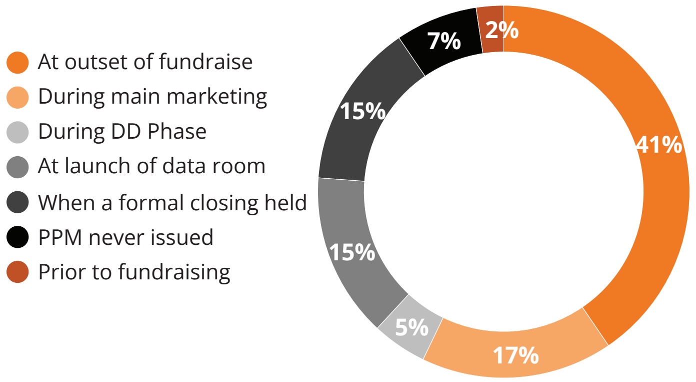
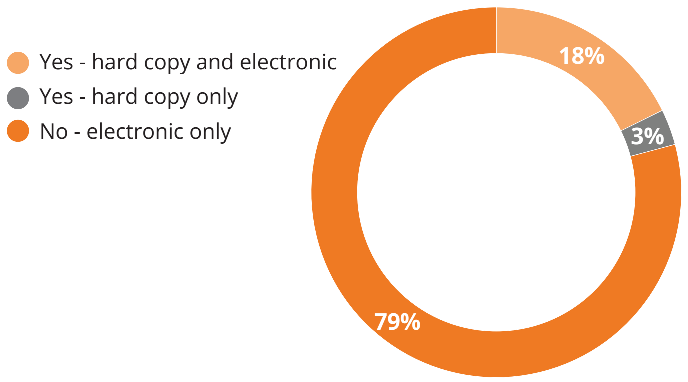



FIG. 24: Do you issue hard copies of you PPM?






## The impact of documentation

What fundraising and due diligence documents does the market perceive to have the most impact on fundraising? Unsurprisingly, the marketing deck is still king, for both open and closed-ended funds.

Managers of closed-ended funds then rank the DDQ as the second most impactful, followed by legal documents, data room choice/setup, PPM and the teaser. Reference reports are viewed as less impactful, with video the least.

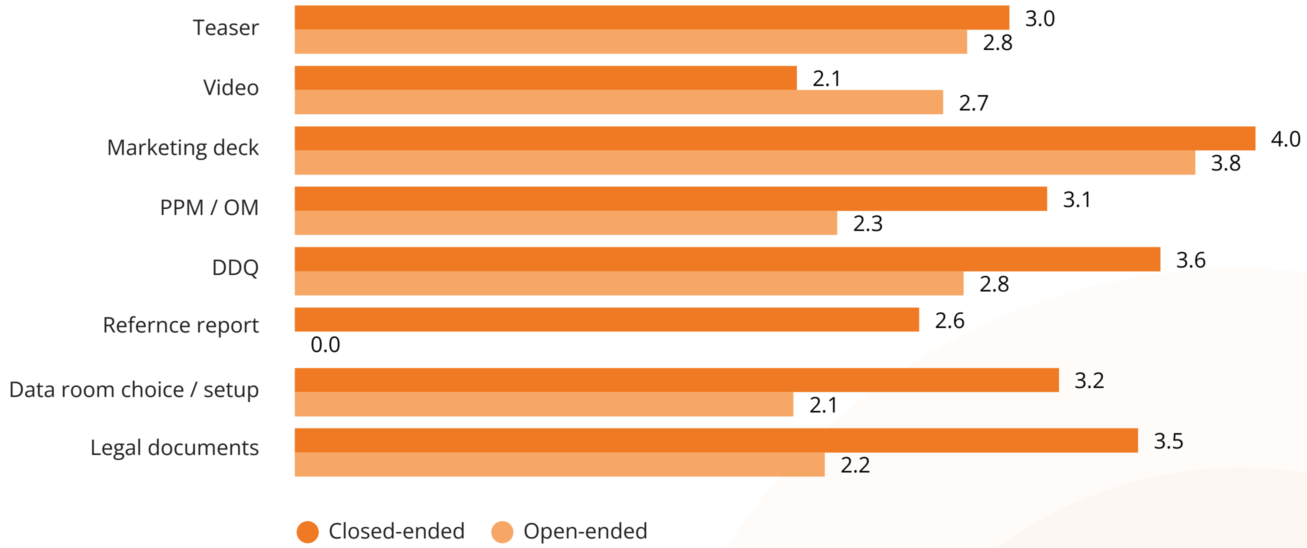
In our view, the low ranking given to reference reports is surprising. There are clear benefits in having a reference report prepared by a credible external party, including saving LPs' time, allowing LPs to focus their own calls, and reducing the burden on referees. This message does not seem to have widely got through to the market, however. Perhaps this statistic will change some minds:

**Those managers that ranked the impact of reference reports highly (i.e., scored them 4 or 5 out of 5) had impressive average new investor conversion rates of 18%.**

For open-ended funds, after the marketing deck came teasers, DDQs, and video.

Notably, managers of closed-ended funds rated the impact of the differing documents and diligence items higher than did managers of open-ended/evergreen funds, with the exception of video. Are they simply more switched on to the efficacy of marketing? Anecdotally we would say "yes".

FIG. 25: On a scale of 1 to 5, where 1 is very low and 5 is very high, how would you rate the impact of the following on your fundraising success?



# Process & project management

# Process and project management

## Data rooms

While there is no shortage of online data room providers, one platform enjoys a dominant position within closed-ended funds. 40% use Intralinks. No other provider came close. When we speak to closed-ended funds about data rooms, Intralinks is the name we hear again and again.

The picture is different for open-ended funds. For these vehicles, SharePoint or another Microsoft solution was most mentioned (22%), followed by iDeals (17%), and then Intralinks (11%).

FIG. 26: What software/platform did you use for your data room (closed-ended funds)?

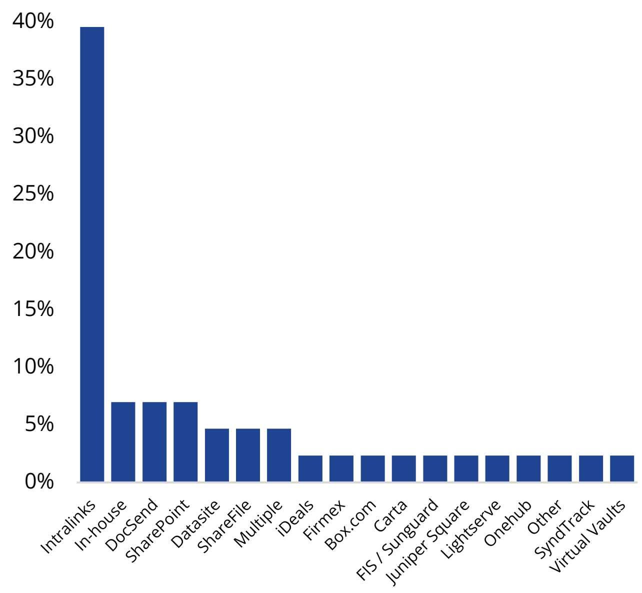
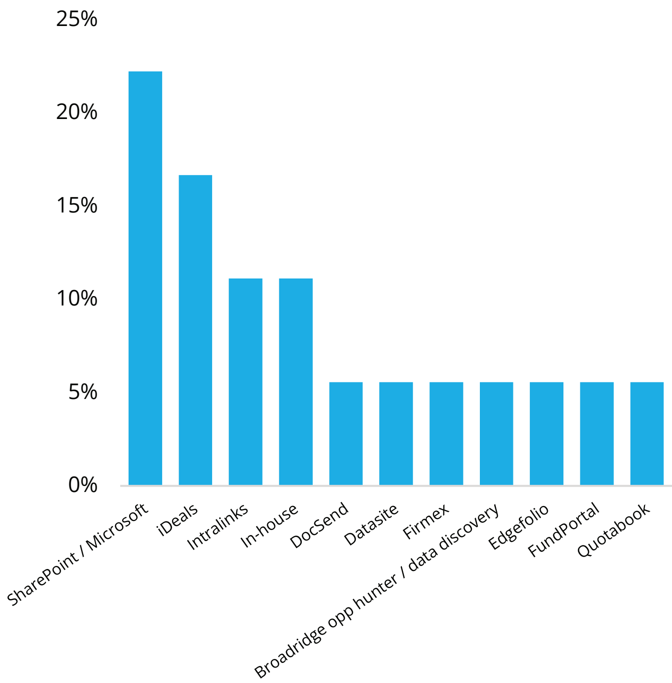



FIG. 27: What software/platform did you use for your data room (open-ended/evergreen funds)?




### Are managers satisfied with their data room provider?

It would seem that they are. Intralinks scored an average satisfaction score of 78 from managers of closed-ended funds that used it. DocSend and SharePoint/Microsoft scored 77 and 66, respectively.

Managers that reported they used an in-house system/solution appeared to rue that decision, reporting an average recommendation score of only 36.

### What do they like?

Respondents mentioned "Ease of use", "Ubiquity / market acceptance", and the "Ability to track documents users view" the most. Managers of open-ended funds also pointed to the efficiency with which investors can find information.

[2] https://www.idealsvdr.com/.



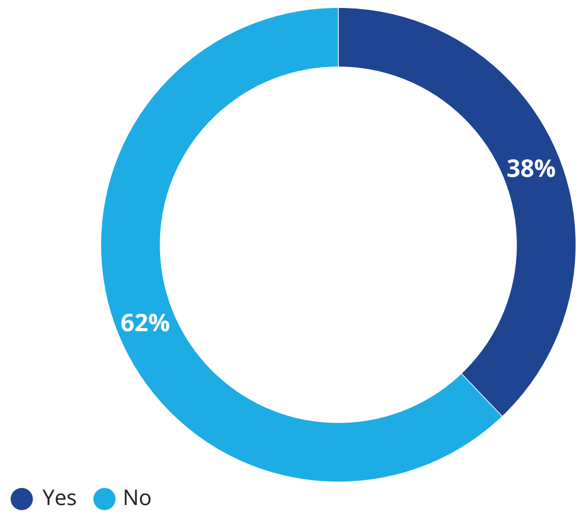
### What frustrates them?

Respondents pointed to cost and issues they had with the layout/interface/navigation of the system. Other frustrations mentioned by respondents included cumbersome sign-up processes for investors; an inability to tell if users are actually engaging with the data room contents; and opaqueness of reporting.

## Process and timing memos

A process or timing memo outlines the process, intended timeline, and key milestones and dates in a fundraising. They can be issued at the outset of a fundraising or before a closing (where they are often known as a "legal closing memo" or similar). Such memos can help prospective LPs allocate their resources and time more efficiently. This in turn helps keep the fundraising on the road, hopefully ensuring it unfurls in a more ordered, managed fashion – and to a defined timetable. They can be a strong tool in the fundraising project management arsenal.

FIG. 28: Did you issue a process/timing memo at the outset of the fundraising?




Despite these benefits, only 38% of respondents indicated issuing a process memo when raising their last/current fund. Why is their use so low?

The timing or process memo works best when there is a realistic expectation that a fundraising will be swift with a tightly defined timetable, due to the manager and fund in question being heavily in-demand. This creates a perception of scarcity and/or likely oversubscription. In such situations, a manager can run a tight process and LPs that want to get into the fund will appreciate clear guidance from the outset of when they need to do their work.

In the current fundraising climate, few managers and funds find themselves in this fortunate position. Most will embark on a fundraising with, at best, a sense of where the investors in the vehicle are going to come from and a vague plan as to timing ("we want to close in Q3" or "we are aiming for a first close in the spring", for example). As the process unfurls, hopefully the timetable firms up as demand (or the lack thereof) becomes clearer. In these circumstances, issuing a timing memo at the outset of fundraising is making yourself hostage to fortune.

# Closing

# Closing

## Number of closes

No doubt reflective of the increasingly tough fundraising environment we find ourselves in, [nearly half] the managers of closed-ended funds in our survey said they held four or more closes for their latest fund. 21% reported they needed two closes and 17% needed three.

Only 16% of closed-ended funds were fortunate enough to be "one and done". So, while it is clearly a challenging environment out there for private markets fundraising, there is still appetite for the right fund and the right manager. A word of caution about reading too much into that 16% number. It is possible (probable, even) that within the funds making up that 16%, there are those that limped to a first close but were not able to close any more capital. Such a fund would technically therefore be "one and done", but hardly a resounding success.

### The first close

FIG. 29: Including the final close, how many closes did you hold for the fund?

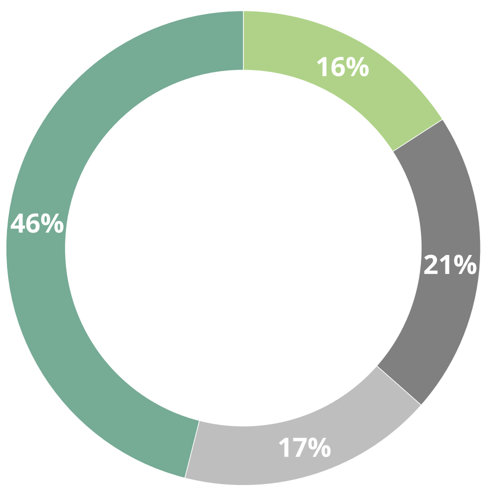
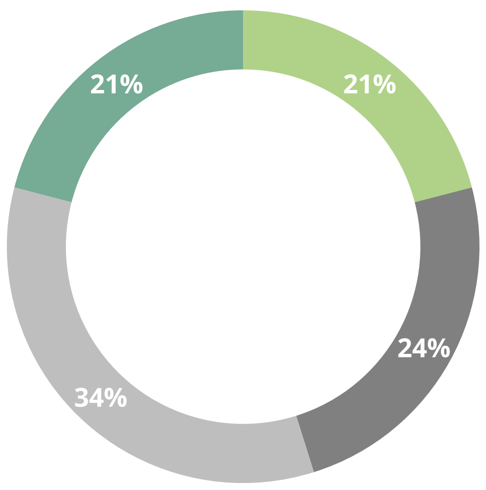



FIG. 30: At what percentage of the hard cap did you hold a first close?




### Legal closing memos

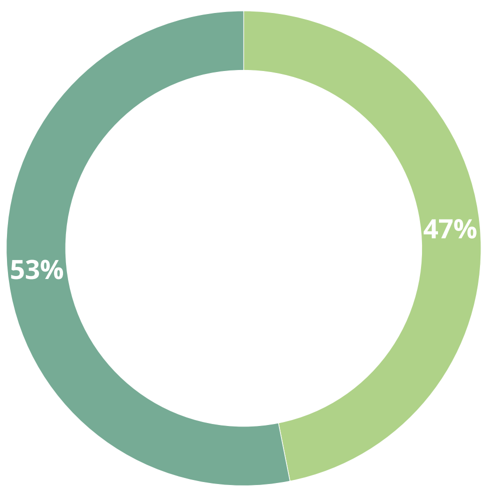
A lot of work needs to be done in a short space of time to ensure a closing happens. External advisors, most notably lawyers but also fund administrators, are heavily involved. Ensuring they are fully aware of when they need to undertake work will help the process go smoother. A legal closing memo will lay out the timeline for the closing and on what dates things will happen:

- When will draft fund documentation be made available?
- When do comments on the LPA need to be received?
- When will the revised LPA be issued?
- When do we need your completed draft subscription document?
- When do we need signed docs?
- What date will the GP board meet to admit investors?

The closing memo answers these questions and more. Clear guidance as to the timetable and milestones of the closing will go a long way to ensuring it happens to that timetable.

Given the above, it is not surprising that issuing a legal process memo ahead of a closing is more common, with over half the market using them.

FIG. 31: Did you issue a legal closing process memo to investors?



# Final considerations: improving the due diligence process

Due diligence can be a resource-sapping, inefficient and time-consuming process for both fund managers and prospective investors. How can it be improved?

For investors, the message is clear. They want better standardisation of manager information, increased transparency and earlier, more efficient provision of information. While initiatives from the likes of ILPA and AIMA to drive the adoption of a standardised DDQ have helped, investors note how many managers either do not use these tools, or amend them to such a degree that a large part of their value is removed.

How can things be improved for managers? By far the most common suggestion was also for standardised data requests. Managers also complain that investors do not often provide clear guidance on their process and timetable. Managers are often engaging with a process that can remain opaque and difficult to navigate over a long period of time. The onus has to be on managers to ask the right questions of investors - and many are bad at this - but if investors were more upfront and open about the steps in their process, how long that process typically takes, when ICs meet, and so on, the overall efficiency of fundraising in alterative assets could be significantly improved.

## About us

We are a transatlantic team of marketing and communications experts focused entirely on the asset management industry, specialising in alternative assets.

Our capabilities were significantly extended when we were acquired by Apex Group in May 2023, joining the newly minted Apex Invest division. Apex Group is a leading service provider to the investment industry with c.13,000 employees globally, servicing over $3 trillion in assets.

With access to the entire suite of Apex Invest* services, our offering is unmatched in its quality, depth, and scalability.

**For more information, drop me an email:**
**jon.greene@apexgroup-fs.com.**

**Advisory and capital raising, distribution, Apex Invest events, ApexInvest.io, Profilir digital marketing platforms and investment advisory business.*

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*Processes Review*

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