stevensonjames
search & advisory

2016

THE STEVENSON JAMES ANNUAL INVESTOR RELATIONS AND FUNDRAISING SURVEY

Section 1

AN INTRODUCTION TO STEVENSON JAMES AND THE ANNUAL INVESTOR RELATIONS AND FUNDRAISING SURVEY 2016

Mutualism: *The way in which two organisms of different species exist in a relationship in which each individual benefits from the activity of the other.*

stevensonjames
search & advisory

CONTENTS

1

STEVENSON JAMES - ABOUT US

Stevenson James is an Executive Search and Advisory firm dedicated to the Private Capital sector. It was established in 2004 by Richard Collins and Tom Quinnen who have over 35 years combined experience of Executive Search.

The firm has two key areas of focus – Executive Search and Advisory. Within Executive Search, the firm focuses on sourcing experienced and talented individuals across the Investment, Investor Relations (IR) and Fundraising disciplines. Our mandates span the globe across the Private Capital sector including private equity, venture capital, secondaries, fund of funds, private debt, real estate private equity, infrastructure and hedge funds. The Stevenson James team boasts an impressive history of repeat business. Our clients are some of the most notable and successful names in the industry and encompass alternative asset managers, General Partners (GPs) and placement agents.

In 2016, the firm appointed Tim McKean to be responsible for leading mandates for Investment, Investor Relations and Fundraising professionals within the private debt market. With over 17 years experience within the market, Tim was formerly an equity partner and a member of the senior executive team at 3i Debt Management (formerly Mizuho Investment Management), where he was instrumental in growing the business to in excess of €3.5bn in total AUM across a range of debt fund products. Originally joining the firm as an investment professional, he transitioned to the role of investor relations in 2010.

The Advisory side of the business is led by Kate Goodall. The firm has developed a strong reputation as an advisor to its clients, undertaking market mapping, performance bench-marking projects and outsourced marketing support which can include strategic introductions, together with assisting firms as they grow their investment and IR capabilities.

The team is supported by its non-executive Chairman John Webster. He began his career in financial services more than 30 years ago with James Capel, where he worked in senior management positions in both London and New York. He spent 13 years consulting to Investment Managers and Investment Banks with Greenwich Associates, the global strategy consulting firm based in Greenwich CT, USA, before returning to the UK in 2006 as Chief Executive Officer of Altima Partners LLP, an alternative asset manager.

Having retired from full time work, he has assumed a number of non-executive roles. In addition to Stevenson James, he is also Chairman of Deutsche Asset Management UK Limited as well as Chairman of Altima Partners LLP.

John read Classics at Oriel College, Oxford, and gained a M.Phil. in Management Studies, also at Oxford University.

***Giraffe** (Characteristics) - Communication, intuition, attaining the unreachable*

STEVENSON JAMES - INVESTOR RELATIONS AND FUNDRAISING

The firm's heritage can be traced back to the work Tom and Richard undertook for Helix Associates. Since its inception, Stevenson James has worked with a number of leading firms for which it has successfully executed numerous IR mandates and, importantly, has built an unrivalled reputation for its understanding of the IR and Fundraising sector.

The firm's reputation in this area of the market was further enhanced in 2015 when Kate Goodall joined the business, following an IR career that included roles with Capital Dynamics and SVG Advisers and again more recently in 2016 with the arrival of Tim McKean. Both Kate and Tim's first-hand knowledge and understanding of both IR and Fundraising has strengthened the competitive advantage of Stevenson James with respect to these key disciplines.

Tom Quinnen

Richard Collins

Kate Goodall

John Webster

Tim Mckean

FOREWORD

Tom Quinnen - Managing Director, Stevenson James

It is hard to believe that this is our third year of publishing the Stevenson James Annual Investor Relations and Fundraising Survey. It all started as a concept born out of a lack of hard information. As an adviser we were regularly asked about the best approach to Investor Relations. Whilst the skills and experience needed by individuals entering the industry or moving from one role to another were clearly defined, the needs of the Limited Partners (LPs) to whom the IR professionals were providing a service were not.

We recognised the value of the insight and the absence of available data. So we took the decision to design our own survey and collect information pertaining to the requirements - and the expectations - of LPs, including the quantum and frequency of communication. The feedback we continue to receive provides truly invaluable insights. This enables us to help our clients build teams that are structured and resourced in a way that allows them both to actively engage with their LPs for the purpose of building long standing, sustainable relationships and also to provide what we now recognise to be a competitive advantage when fundraising.

What is beyond doubt is that the nature of private capital fundraising has changed beyond all recognition compared to the boom times of the 2000's. One of the responses that has interested me most is the increasingly important impact a high quality IR function has on an LPs decision-making process when selecting a GP. In our first survey it was simply seen as one of a number of factors but this year more than half cited the presence of a well-regarded Investor Relations function would be a deciding factor between competing GPs. This is endorsed by the comments of George Sudarskis, an advisor who formerly designed and ran the global private equity portfolio at the Abu Dhabi Investment Authority, to Private Equity International (PEI) in their latest Top 300 report, where he said that a differentiating factor for the most successful GPs judged by assets raised was the quality of the Investor Relations.

Our view as advisors supports this and it has been encouraging to observe the shift in the last couple of years where GPs have been making proactive moves to update and strengthen their IR teams. The value of this can still be judged by the nature of the fundraising market. There remains a clear bifurcation with some GPs being able to approach their fundraising in a capital markets style allocation process while the rest are working hard to find the capital to hit their targets.

From the comments of LPs, there is no sign of things changing. Their demands with respect to due diligence, reporting and information flows - as well as the increasing trend towards co-investment activity - means that the role of the IR professional will remain a dynamic and rapidly evolving one. This is a good thing; what was once seen as an additional role performed by or the responsibility of a senior member of the investment or management team is now a clear career choice and one which offers continual challenges and variety.

We have been overwhelmed by both the way the survey has been received by the market and the generosity of the people who have supported us by giving up one of their most valuable resources – time - in order to make this possible. Without the willing participation of the LP community, this idea would never have made it out of the first planning meeting. So I want to take this opportunity to thank those LPs who have participated since inception, and particularly the contributions of Christiian Marriott from Equistone Partners Europe and the two individuals who have successfully made the transition from Investment to Investor Relations professional, all of whom have outlined the IR professional's perspective for the first time. I also want to thank our clients and business partners without whom Stevenson James would not have flourished over the last 12 years.

As we look to the future, it will be fascinating to see how the rapid growth of private debt managers mirrors private equity in the development of LP engagement and their approach to fundraising. It is an asset class that has gone from a standing start to managing $523bn in next to no time at all (Source: Preqin Private Debt report 2016). According to the report 95% of these managers were raising their second or subsequent fund and spending more time on the road than ever before with current funds in the market targeting approximately $123bn. These statistics are clearly very impressive but as the market matures, competition for LPs attention will intensify and GPs will need to increasingly focus on their capital raising activity.

We hope that you find the report both interesting and useful, and would welcome your feedback.

Tom Quinnen - Managing Director, Stevenson James
tquinnen@stevensonjames.com

INTRODUCTION

The inaugural Investor Relations (IR) and Fundraising Survey was published by Stevenson James in 2014 and reflected the views of a targeted group of Limited Partners from across the globe on the IR and Fundraising function within Private Equity. Stevenson James instigated the survey in order to improve our understanding of the role of IR as viewed by LPs, specifically the value it adds to the relationships between LPs and GPs and its function and position within the Private Equity market. Now in its third year, the survey, which we believe remains the only one of its kind to be undertaken, continues to provide valuable insight into a function which has grown not only in importance, but also in complexity and now covers a much broader remit than five years ago.

In addition to the findings of the survey, this edition also includes an interview with two leading IR professionals which addresses a key finding from this and our prior surveys, namely that a growing number of LPs believe IR professionals should have prior investment experience. Both of the people interviewed have made the successful transition from the investment discipline to Investor Relations and were therefore able to provide useful insight into what value their respective investment experience delivered to both their relationships with LPs and to the firms they represent. The interview can be found on page 21. We are also delighted to be able to include an interview with Christiian Marriott who, as Head of Investor Relations and a Partner with Equistone Partners Europe, is one of the most highly regarded IR professionals in the market. The discussion involves the continued development of the role and how it has changed since he commenced his IR career in 2000 and includes some of the challenges he faces, his professional achievements and what advice he would give to his younger self about a career in IR. The interview can be found on page 13.

As with previous editions of the survey, our core objective remains to produce research which:

- **provides a meaningful contribution to the continued discussion around IR and Fundraising,**
- **assists in establishing parameters for a “best in class” offering and;**
- **provides data and information which can be used by GPs to support the development of an IR function designed to meet the evident requirements of the industry’s LPs.**

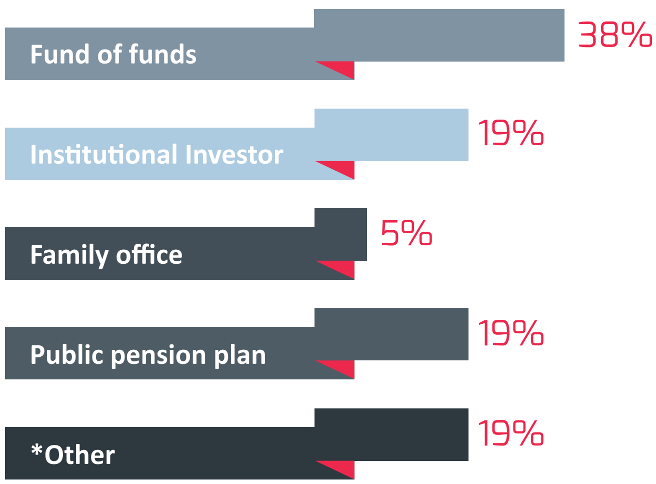
METHODOLGY

The Stevenson James Investor Relations and Fundraising Survey has been designed to gather the opinions on the IR and Fundraising function from a select number of LPs, via a series of both qualitative and quantitative questions, enabling respondents to provide commentary alongside more data driven responses. Over the past three years the survey has evolved in line with the market and new questions have been added to reflect interest in different subjects. As a result, we are only able to provide comparative analysis for those questions included in previous surveys.

Given the complexity of the role and the broadening remit of responsibilities, we focus on the key components of the IR and Fundraising role and the service delivered to LPs. Our questions are designed to establish both the extent to which the contribution made by IR professionals to the service they deliver - from reporting and communication through to the management of co-investments - is recognised, as well as the value that an IR function can provide not just to a firm's existing LPs but also as a means of differentiating a firm to prospective investors during fundraising.

The research for the survey was undertaken over the second and third quarters of 2016 with survey respondents representing Private Equity investors from across the UK, Northern Europe, Middle East and the USA. In total, the survey respondents have over c.£325bn of AUM (Currency conversion: Oanda.com) allocated to Private Equity, an increase from last year's total of c.£300bn.

A breakdown of the respondent type can be found below:



**including HNW investors and consultants*

EXECUTIVE SUMMARY

There were a number of key findings from this year's survey.

1. Participating LPs confirmed their respective commitment to the asset class. Over **75%** of respondents confirmed an increased allocation to Private Equity (PE) over the last five years and 50% expect their allocations to increase further in the future.

   In the past five years we believe there has been a perceived trend by LPs – including CalPERS (California Public Employees' Retirement System) - to reduce the number of GP relationships in a bid to reduce fees and improve investment returns. We were therefore interested to receive feedback that by contrast shows that **42%** of respondents have in fact increased the number of GP relationships over the last 5 years. Furthermore, **50%** expect the number of GP relationships to increase in the future. This could be a response to the challenge faced by LPs committing to fewer GPs to build portfolios properly diversified by geography, sector, investment stage and type.

2. Participating LPs continue to support the role of the Investor Relations function. 80% of the LPs we surveyed confirmed that they believe the function to be either valuable or extremely valuable with one LP commenting that **"IR is an essential interface between a firm and its clients".**

3. As the IR role has continued to develop and become recognised as a complex, and often multi-faceted role, **86%** of participating LPs believe that investment experience is either preferred or essential.

   A growing number of LPs believe that it now demands not just client relationship management skills but also investment experience and professional qualifications.

   With the continued increase in the volume of information now required by LPs, many of whom cited increased regulation and scrutiny as key drivers, the onus is on GPs to provide accurate information as quickly as possible. Our survey clearly supports the preference of LPs for a dedicated IR function, particularly given that **50%** of those LPs surveyed agreed that investment professionals should not be responding to questions and requests for information, but rather concentrating on investing. One LP commented **"If a firm didn't have an adequate resource (i.e. someone solely focused on IR), we would typically suggest they find someone".**

   Given the requirement that information needs to be delivered quickly, there is an evident preference for IR professionals who are capable of disseminating and communicating detailed, often complex information to LPs without having to defer to their colleagues in the investment team, thus reducing the time needed to respond to enquiries.

4. The presence of an IR function can add significant value during the fundraising process.

   53% of the LPs who participated in this survey confirmed that when appraising opportunities with GPs who have a similar strategy and focus, if all things are equal in terms of track record and performance, the presence of a well-regarded Investor Relations function would be the deciding factor between competing GPs.

5. Whilst the feedback received regarding the role of Investor Relations was broadly positive, those LPs surveyed did confirm that there are firms who must improve the quality of the communications they produce and the timeliness of the delivery.

   Transparency remains a key issue with some confirming that information pertaining to the underlying portfolio companies is **"still too light and too thin"**

Section 2

DEFINING THE INVESTOR RELATIONS FUNCTION

Honeyguide bird *- Also known as indicator birds or honey birds, they are named for their remarkable ability to understand a human call to accompany them to locate honey. Once the bee hive is open and the honey is taken, the bird feeds on the remaining larvae and wax. They have an Old World tropical distribution, with the greatest number of species in Africa and two in Asia.*

DEFINING THE INVESTOR RELATIONS FUNCTION

As the role of Investor Relations continues to develop, so too does the breadth of responsibility, transforming the role into a multi-faceted, complex function performed, in some cases, by teams composed of several individuals.

In many cases the Investor Relations function will often have sole responsibility for, and management of, both the fundraising process, and the production of reports and updates pertaining to the firm, its funds and underlying portfolio, which can include the drafting of content, managing their production and efficient dispatch.

In addition we have seen a growing trend for IR professionals assuming responsibility for the management of the co-investment process. However the feedback that the management of the co-investment process is a ***key function*** within the remit of IR is very limited at present. This would suggest that whilst the level of co-investment activity has increased within the industry, the responsibility for the management of the process is yet to be widely assumed by IR and therefore remains the responsibility of the investment and/or management teams.

This is of interest because if the level of co-investment activity continues to grow, it's highly likely that a well-resourced IR function will be able to add significant value to the management of the co-investment process which can be complicated further by the resource and time constraints of LPs.

An important point made by a number of the LPs is that in addition to the functions performed by an IR professional or team, as outlined above, IR also plays an important role in understanding and then communicating the investment preferences and strategies of the LPs. It is the IR function that provides the LPs with representation within those GPs to which they have committed capital with respect to strategy and product development.

IR also plays an important role in understanding and then communicating the investment preferences and strategies of the LPs.

THE VALUE OF INVESTOR RELATIONS

Our findings demonstrate in the first instance that it is the LPs who benefit most from the presence of an Investor Relations function, most notably through the GPs timely delivery of accurate information and the ability to respond promptly to queries and requests for information. This is important given that **81%** of LPs confirmed an increase, either marginal or substantial, in the amount of information now required, citing increased regulation and scrutiny as key drivers. Furthermore, more than **50%** of LPs agree that investment professionals should NOT be responsible for IR and the management of investor queries which some LPs believe to be a distraction, preferring instead that the Investment professionals focus on the investment activities of the firm.

Undoubtedly, the most significant feedback from a GP perspective is the confirmation that the presence of an IR function can materially add value during the fundraising process. **53%** of the LPs who participated in this survey confirmed that when appraising opportunities with GPs who have a similar strategy and focus and if all things are equal in terms of track record, the presence of a well-regarded Investor Relations function would be the deciding factor between competing GPs. Our experience suggests that there is a correlation between the presence of a dedicated IR function and the success of a firm, particularly with respect to fundraising.

As discussed, the principal function of Investor Relations is to raise capital and provide the necessary conduit between LP and GP. The IR function, be that an individual or team can really add value by forging strong relationships with LPs, keeping them updated on investment performance, the strategy of the firm and its investment portfolio within the context of the changing market environment, and abreast of any changes to the firm's structure and strategy which may have an impact on the value of investments. They will ensure the timely delivery of accurate reports and respond to questions and requests for information as quickly as possible. In turn, the IR function will keep the firm abreast of the LPs investment focus and allocation strategy, all of which is invaluable to the development of a firm's product strategy and ensuring that LPs re-up to future funds and, where relevant, are positioned as prospective investors for new products.

Whilst not a like for like comparison, we believe a good illustration of this correlation can be found when considering those firms which appear at the very top of the PEI 300 list, published by Private Equity International which ranks firms in order of the total funds raised in the past five years, versus those at the bottom. Whilst those firms listed in the top 10 are able to take an institutional approach to Investor Relations given their relative size and scale, employing sizeable teams across multiple jurisdictions that are focussed on either sales & marketing or client services, only one of the firms listed in the bottom 10 has a dedicated IR function in place. Notwithstanding the difference in size, focus and track record of the firms included in the list, it does serve as an important illustration of the value that IR can add to a firm when fundraising.

The presence of an IR function can materially add value during the fundraising process.

Q&A - CHRISTIIAN MARRIOTT

Christiian Marriott
Partner, Fundraising and Investor Relations
Equistone Partners Europe

As one of the best regarded IR professionals in the market, Christiian Marriott, a Partner of Equistone Partners Europe (Equistone) and Head of Fundraising and Investor Relations (IR), is able to provide an interesting and informed perspective on the role of IR. Having commenced his IR career in 2000, Christiian has witnessed first-hand the development of the role, its increasing prominence within the Private Equity market and also its growing value to investors and to those firms in which a dedicated IR function operates.

Christiian has been responsible for raising three funds for Equistone, the most recent of which, the fourth fund, closed in April 2015 having successfully reached a hard cap of €2bn in six months. Equistone is one of Europe's leading lower mid-market private equity firms investing between €25m and €125m of equity in businesses with enterprise values of between €50m and €300m.

Christiian joined Equistone in 2007 from MML Capital and prior to that began his private equity career with Campbell Lutyens. He is responsible for fundraising and leading the IR programme for current and potential investors. He also coordinates responsible investment and ESG initiatives at Equistone. He currently serves as a member of the Investor Relations Advisory Group of the BVCA.

Q&A - CHRISTIIAN MARRIOTT

What do you believe are the key functions of the role of Investor Relations?

The principal function of Investor Relations is to raise funds more efficiently whilst continually presenting the firm to the market in the best way possible.

Having raised funds, the IR function must focus on the management of relationships with the firm's investors. Whilst not a compliance function, IR can act as the conscience of the institutions that the firm partners with, which is in the firm's interests as well. The Limited Partners will be clients of the firm for a 10 – 20 year period. They can't walk away if things don't work out so having an IR function in place to ensure that the clients are listened to and communicated with properly will support the development of long term relationships.

What are the key areas of responsibility covered by you and your team?

First and foremost, the key responsibility of the IR team is to raise funds for the firm. The Investor Relations team of three at Equistone has total management of the fundraising function and whilst the Managing Partner of the firm has oversight, it is the IR team that runs the whole process.

Secondly, reporting. The IR team works in close partnership with the Finance team and together we follow a carefully defined process that was put in place to ensure that the reports produced and delivered to investors are of the highest quality. We are also responsible for producing all of the investor communications including updates from the portfolio and news pertaining to the firm and its funds. The other responsibility is to meet with the investors and prospective investors, promoting the business with the right audiences during and after completion of each fundraise which involves organising and attending meetings and a great deal of travel.

Where do you and the IR function sit within the firm?

Within Equistone, IR sits both geographically and economically (cost centre) within a function called Central Services which also comprises the Finance, Legal & Compliance functions. IR and Marketing both report into me and I report directly to the Managing Partner, while our Finance team report to our COO.

In addition to having responsibility for IR and Marketing, I'm also part of the firm's senior management team and observe (i.e. without a vote) at our investment committee.

Q&A - CHRISTIIAN MARRIOTT

Do you believe that making the IR function a senior role within a firm promotes credibility with investors and changes the way in which they perceive you and the way they interact with you?

Broadly yes. It's taken a long time but the function of IR is gaining credibility with LPs. This is primarily as a result of the continued maturing of the industry and the level of information now required by investors but also because for most firms, IR is at the forefront of the business. It is the IR teams who engage directly with the investors and external audiences. If the IR people are close to the firms they represent, are embedded in the fabric, the way in which they are perceived by the investors will naturally be enhanced.

However, there are still some firms that keep the function separate from the key people in the firm, those at the forefront. It is hidden under a bushel and in my opinion firms that operate in this way are never going to provide their IR professionals or teams with the opportunity to gain the credibility they need.

Whilst we must remember that there are successful firms in the market that don't have an IR function, there is now a whole generation of people doing the job because they enjoy it and are proud of it. It is now a recognised discipline with a clear career path through to Partner. Some firms have chosen to have ex-deal partners run IR, and in some cases such as here at Equistone with my predecessor Brian Blakemore, this was hugely successful. But personally I think that in some other cases this partially held back the development of a truly professional IR function.

Have you seen notable changes in how it is perceived by LPs?

Yes, there is greater acceptance of the role from LPs. LPs don't necessarily need to see senior members of the investment team at the majority of meetings. They are happy to see the IR professional on a day-to-day basis and engage with senior deal-side partners once or twice a year, or during fundraising. LPs have moved on from seeing IR as a second class function and are happy for the deal team to be left to do their day jobs.

How important is it that IR is recognised as an integral function not only by LPs but by the firms in which an IR person operates?

Very. PE firms culturally centre around people who generate returns, and therefore carried interest. Deals are done by firms rather than by individuals. Therefore those within a PE firm not contributing to a deal and the resultant carry may be seen by some as second class, as a cost centre. Those doing origination, the Finance and Compliance functions can also fall into that bracket.

For that reason, IR professionals must learn to upsell themselves, subtly, to remind people of the value that they bring, the importance of building strong relationships with LPs who are the real clients of the firm whilst also reminding people how difficult life would be without money to invest. There is a received wisdom that if a fundraise fails or does not go well, the blame is put upon the person or the team responsible for IR but if the fundraise goes well it's because the track record of the firm is very good. So 'burrow in', stick with it and earn the recognition of your firm.

Q&A - CHRISTIIAN MARRIOTT

How does your function add value to Equistone?

Being able to raise money quickly and efficiently with minimum disruption to the deal team and at the minimum cost. A good IR team will be able to reduce the costs of a placement agent and can make a fundraising happen quicker, which is beneficial from a management fee perspective if your next fund is larger than your last one.

IR can also have a genuine impact on the outcome of things going bad. It can provide breathing space to allow a firm to get a clear understanding of the situation before it speaks with it's investors.

But are investors really bothered by the presence of an IR team if the numbers are good enough?

I believe that LPs want to invest with firms who are successful, but also decent, ethical and honest. They don't want to be invested with firms who play fast and loose with responsible investing or reputational issues. A good IR function can help ensure that doesn't happen by keeping the investors informed as early as possible in each situation, particularly on those occasions when there is a problem within a portfolio company. I believe good IR is the industry's kite mark. A quality guarantee. However, there are firms which will still raise money even though their IR function is not recognised as being the best.

How has the role of IR developed and changed during the course of your career?

16 years ago there was no training. IR people had to make it up as they went along. No one knew what good looked like. Now they do. It's become so much more professional and there is so much more transparency. LPs are now more likely to tell you what they are doing and perception studies are much more common.

The other point to make is that there is now a much deeper pool of talent which includes a growing number of specialists. Where once the IR professionals had to be 'all-rounders' – good with numbers, strong writing and presentation skills, and great relationship managers - there are now more functional specialists. For example, you don't have to be gregarious to be an IR professional, you could be very number and data orientated and focus just on client services.

What do you believe constitutes best practice in IR?

Integrity, thoroughness and diligence. This is so important given the size and breadth of the investor interaction we are all part of. IR people must be thorough but they also need to be proud of the work they do. Listening to LPs. This is vital. LPs are so important to the future of the firm and they need to be listened to. Timeliness and being organised. Going back to an LP when you say you will.

Q&A - CHRISTIIAN MARRIOTT

What do you think are the most important skills an IR person needs to possess?

You have to be numerate and have a sound knowledge of the building blocks of corporate finance and PE investing, but knowledge of financials can be acquired through early training and then experience on the job: always asking smart questions is a good sign of a junior IR professional. Good written and verbal skills are essential but, above all, empathy and high levels of emotional intelligence. If you are only on transmit you will not do your job properly. You have to listen.

What are your most significant achievements in your role with Equistone?

Reaching the target for the debut fund which followed the spin out from Barclays. That fund secured the future of the firm. However, as an IR person I have learnt that it is important to find satisfaction at a more granular level. For example, my team produced a template for new deal information which pushed the levels of transparency in a number of ways that normally deal professionals would steer away from. On receipt of the document, an LP asked if I would be happy for him to send the template document on to other portfolio firms, including some of the biggest firms in the industry, as an example of best practice. It's a small thing but that was a great boost.

So, on the one hand I spent two and a half years raising a difficult spin-out fund that secured the future of the firm and then on the other, I am getting a pat on the back for a communications template. As an IR professional you have to be able to take pride in the small things and enjoy the sense of achievement attached.

Other more modest achievements? Seeing people in the audience at an Equistone offsite putting their blackberries down to listen.

Do you believe best practice in IR can be instrumental in improving further the relationship between LPs and GPs and also the way in which the industry is perceived?

Yes. The better we all are at managing our relationships with investors, the better it is for the industry. When things go bad we are all tarred with the same brush. Fortunately, there is a lot of knowledge sharing that goes on between IRs in PE because we understand the importance of us all doing things properly.

Q&A - CHRISTIIAN MARRIOTT

Can it help improve public perception and repair damage caused by the high profile activities of some firms in the market.

There is still a long way to go to repair the damage caused to the public perception. One problem is that the industry really is not set up correctly to deal with managing and improving the public perception. That's largely because I don't believe the in-house communications teams within PE firms have the same credibility and gravitas as those within the listed corporates, although that's been changing in the bigger firms, where there are some excellent heavy hitting communications professionals who've developed their roles in the last five or so years. IR can be part of making things better but it needs to come from the top in each firm and also IR people need to remember what their role is and what they are hired to do. Their job is to raise funds, to help create great relationships with LPs and to ensure that the level of information delivered is done so efficiently. In those larger firms they don't have the bandwidth to also manage the communications function. firms must hire specialists.

What does a day in your life look like?

It's incredibly varied. Sometimes I'm heading to Heathrow at 5.30am to catch a flight to a European city, but if I'm in London, it doesn't start too early, and I get to work at around 9:00 – 9:30am having had breakfast with my children and having dealt with my overnight emails on the journey into the office. During the day I will check in with my team, but also typically with our COO, and I try to grab time with members of the deal team to get the feel of what's happening at the coalface. During fundraising it's all about getting out to see investors and prospective investors so there is lots of packing of suitcases and travelling.

Outside of fundraising it's a mix of reactive and proactive. Responding to LP queries and compliance issues. Sometimes I'm running between meetings and by the end of the day I haven't even had a chance to eat and other days I can get completely absorbed in an IC paper.

There is a longer end to the day and the last 1.5 hours are spent getting tasks concluded. This is definitely a job for a self-starter. There is no one telling you what to do.

Would you tell your 28 year old self to pursue a career in IR?

Yes I would but I would make them aware of the fact that sometimes it's the same thing over and over again. Fundraising is cyclical and there are necessary processes to be followed. As I said earlier, it's important to find one's enjoyment of the role to be able to find a sense of achievement from the little wins as well as successfully closing a fund. I would say that if someone is looking for the biggest buzz and maximum amount of money IR is not the role for them because whilst you may have a seat at the top table it's the deal doers who are centre stage.

SKILLS/QUALIFICATIONS OF AN IR PROFESSIONAL

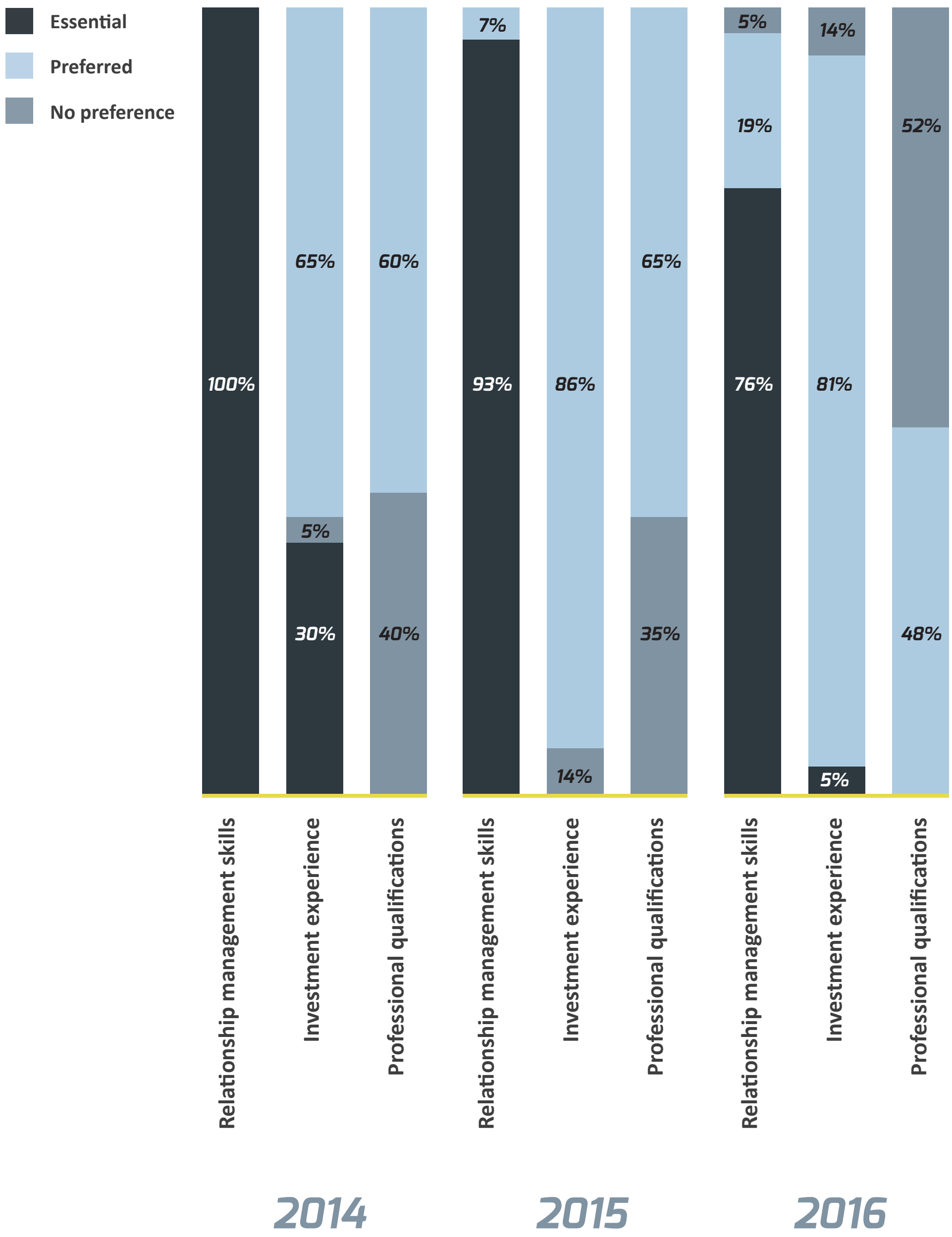
The feedback received from LPs involved in all of our surveys confirms that whilst Relationship Management skills are essential to the role of IR, Investment experience is also seen as important and for a small number of the LPs we surveyed this year it is viewed as essential.

The majority of LPs expressed a preference for investment experience. Exploring this concept further it appears that LPs believe investment experience can add value specifically with respect to the time needed to respond to enquiries. One of the IR professionals we spoke to as part of the interview which can be found on page 21 concurred, "Because I am able to talk comfortably about our investments, I am able to address questions on the spot rather than having to defer to the deal team which cuts down the response time".

However, a detailed review of the market shows that there is a very high proportion of IR professionals who came to the role without an investment background and yet don't suffer in comparison to those who do. It appears that a strong technical, transactional and analytical skill set is more than capable of providing the individual with the skills necessary to be successful.

The key appears to be the level of detail an IR Professional is comfortable communicating to an LP before involving the investment team and as has also been noted, this is a judgement call all IR Professionals need to be able to make.

CHANGE IN PREFERRED SKILLS/ QUALIFICATIONS OF AN IR PROFESSIONAL



LPs believe investment experience can add value specifically with respect to the time needed to respond to enquiries.

FROM INVESTMENT TO INVESTOR RELATIONS PROFESSIONAL

Since the survey was launched in 2013, the question of what skills and experience LPs believe IR professionals operating in Private Equity should possess has elicited some interesting feedback. Unsurprisingly, Client Relationship Management skills are those that LPs overwhelmingly agree are key to the role of IR. However, as with the findings published last year, investment experience is also increasingly regarded by LPs as either preferred or essential.

When the survey was first published in 2014, 56% of those LPs surveyed confirmed that Investment experience was either preferable or essential. In 2015 that figure increased sharply to 86% and has remained at that level this year; feedback which demonstrates not only the continued professionalisation of the role but also the regard in which it is held by LPs.

However, whilst there is a high level of demand from LPs for IR professionals to have investment experience, there remains only a small proportion of IR professionals in the market with the requisite experience. Recent research carried out by Stevenson James suggests that less than 25% of Investor Relations professionals within the top performing Global Private Equity firms possess investment experience; a reality which is at odds with the feedback we receive each year from LPs.

Making the transition from investment professional to the role of investor relations is not widely recognised as a natural step or, from our experience within the Executive search market, one that occurs very often.

Furthermore, the difference in skills and qualifications required to perform each role is evident, not least the demand for professional qualifications and/or previous experience levied upon those seeking a career in investment management.

With such a relatively small proportion (25%) of the current IR population in possession of prior investment experience, we were keen to understand from those who have made the transition to IR, the value that the skills and experience gleaned from their time as investors has added to their relationships with investors and their ability to perform the role.

We spoke to two leading IR professionals from the market who had previously been investment professionals. Given the nature of the content, both individuals chose to remain anonymous. The first, Participant A, is Head of Investor Relations with a leading European Private Equity firm. Having joined as a member of the investment team, this person went on to make the transition to Investor Relations over 10 years later. The other participant, Participant B, is the Head of Fundraising and Investor Relations for Europe, the Middle East and Africa for a Global investment firm. Both possess professional qualifications as well as having investment experience.

FROM INVESTMENT TO INVESTOR RELATIONS PROFESSIONAL

What value do you believe that your experience as an investment professional adds to your relationship with your investors?

Participant A – Having the ability to talk about the market, pricing and competition. LPs can be concerned about making commitments to PE funds and deploying capital for a long time. As an IR professional you should be able to talk about deal flow, competition and pricing, thus providing the necessary context and helping investors to understand why capital may not be deployed as quickly as they would like it to be.

Participant B – Because I am comfortable talking about our investments – in terms of the thesis, risks, valuation, etc. – I am able to address questions on the spot rather than having to defer to the deal team which cuts down the response time. There is obviously a benefit to investors of being able to talk to the IR person in detail about the entire portfolio of investments but if they want to do a 'deep dive' on a particular company or have specific industry-related questions that I cannot address, I can arrange for them to speak with the investment team directly.

Given your investment experience, are investors and prospective investors more likely to speak with you about investment related queries rather than speaking directly with a member of the investment team?

Participant A - Yes, but it does depend on what type of relationship you have with LPs. There are some that see IR as a marketing or sales function which means that once the commitment has been made, the next step is to talk to the investment team as they are the ones in the market doing the deals. Whilst it is an advantage to have investment experience, IR is no substitute to direct access to the Investment team.

Participant B - Yes. Having earned their confidence over the years, I know investors feel comfortable talking to me about our investments, particularly as a first step to determine if they want to probe deeper on a company or sector.

If so, how valuable is this to the investment team in terms of the positive impact on their time?

Participant A - I believe it is important to shield the investment team from investors so that they are able to focus on investment activities. But, at the end of the day, the firm that I am part of wants the investment team to have exposure to LPs as the firm believes that it is important that they understand them and what they want.

Participant B - I really try and cover as much as I can but I don't want to be obstructive and so I am happy to connect the investors with relevant members of the investment team whenever it would be helpful or beneficial. However, if I can triage the questions first and only involve the investment team when necessary, I can address investor questions quickly and help the investment team to focus on their primary job of sourcing and managing great investments.

FROM INVESTMENT TO INVESTOR RELATIONS PROFESSIONAL

Do you believe your investment experience adds to your credibility as an Investor Relations professional?

Participant A - Yes absolutely.

Participant B - Yes. I was told by one investor that I was the best fundraising IR professional that he had ever met based on the depth and breadth to which I could talk to the portfolio, which was flattering and very kind of him to say.

How additive has your investment experience been when marketing to prospective investors?

Participant A - I don’t really know because when I am speaking to a new investor contact I wouldn’t necessarily flag my previous investment experience during the early meetings. Whilst it is very relevant and a huge positive we must remember that there are IR people out there who don’t have an investment professional background and they are hugely capable and very successful.

Participant B - When meeting with a prospective investor the conversation is never straightforward and often jumps around from micro to macro and across the sectors and geographies we cover. The ability to distil and synthesize crisp messages to convey to prospective investors across all of these dimensions is a skill one learns on the investment side of the business and has certainly helped me build credibility and be responsive to investors’ questions.

What prompted you to make the move from Investment professional to Investor Relations professional?

Participant A - I had been on the investment side of the business for 15 years. I liked the firm but wanted a change of scene. The move into IR was also a reaction from the firm to a tough fundraise. The firm realised that after the downturn in the market, IR was indeed core to the development of the business. The IR team now has input into the decision making of the business and is recognized as a very good, very serious role within the firm. Fortunately, IR has become the focus of firms like the one I am part of over the last 10 years.

Participant B - I was not looking for fundraising/IR roles but the opportunity to join the IR team and switch from the investment team came up and so I considered it. Whilst I liked my firm and the industry, I really wasn’t passionate about investing and did not see myself building a longer term career on that side of the business. I decided that the fundraising and IR role offered me the opportunity to stay with an industry, firm and team I knew and liked but operate in a role that was more appealing to me personally and for which I believed I was likely to be better suited.

FROM INVESTMENT TO INVESTOR RELATIONS PROFESSIONAL

What elements of the role of IR do you enjoy the most?

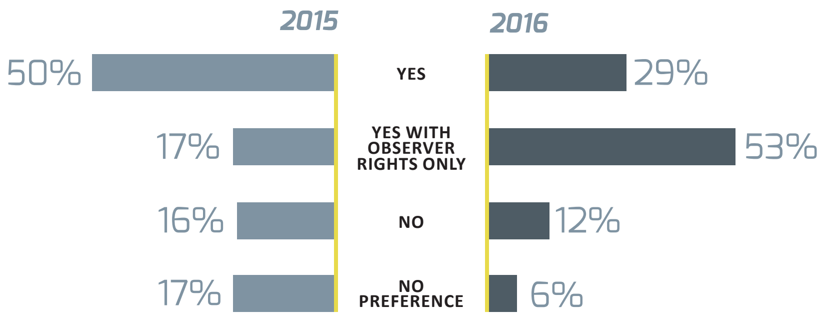
Participant A - I enjoy the job a lot. I really enjoy meeting people and I also enjoy the travel which is both interesting and tiring. The analytical side is becoming much more important. The presenting of data in the right way, be that fund or portfolio data and this is not as enjoyable but the firm has now hired in specialists who are responsible for this part of the role.

Participant B - I am an extrovert. I love working with and meeting new people, so the role of IR is a natural fit for me. However, whilst I had been at the firm for some time already and was moving from an investing role, there was still a steep learning curve to get comfortable with all of the information pertaining to the portfolio, fund structure, etc. I do look back at the time when I was contemplating the switch and, despite being given advice to not make the move and to stick with investing, which is recognised as the "sexy" side of the business, I know I made the right decision because I really do love my job.

If I can triage the questions first and only involve the investment team when necessary, I can address investor questions quickly.

SHOULD THE IR INDIVIDUAL HAVE A SEAT ON THE INVESTMENT COMMITTEE?

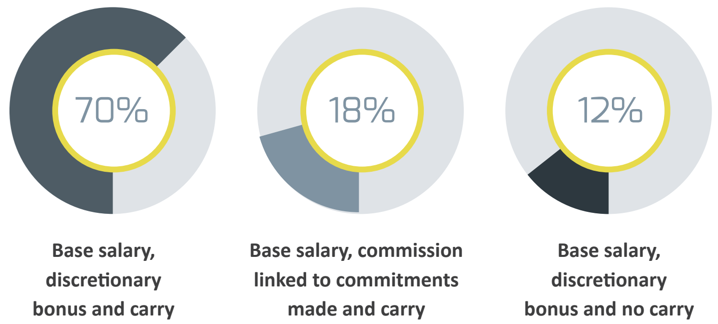
We know from our conversations with LPs that some do see IR as a means with which to represent their respective interests within the GP. This sentiment is endorsed by feedback received which demonstrates a gradual increase over the past three years of the number of LPs who believe Investor Relations should have a seat on the Investment Committee either with voting or observer rights.



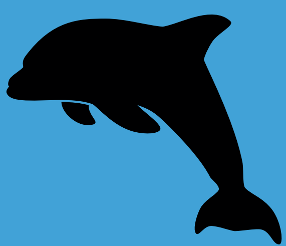
COMPENSATION

An interesting observation is the high proportion of respondents who believe that IR professionals should receive a discretionary bonus as opposed to commission linked to commitments made (in addition to base salary and carried interest). This suggests to us that LPs recognise the importance of crediting and thus rewarding IR professionals for the role they play in the success of the firm and the service provided to LPs rather than just their efforts to secure commitments to funds. This feedback points to further progress within this sector of the market and a changing perception of the role away from a sales focussed function and its formulaic compensation.

However, from our experience, there remains no set formula with respect to how firms compensate their IR professionals and it still does depend on the culture and size of the firm in terms of both people and Assets Under Management



Section 3
INVESTOR RELATIONS DELIVERABLES



Bottlenose Dolphin *- The most common and well-known members of the family Delphinidae. The family of oceanic dolphin is known, in some areas including Laguna in Brazil, to cooperate with local fishermen by driving fish into their nets and then eating the fish that escape.*

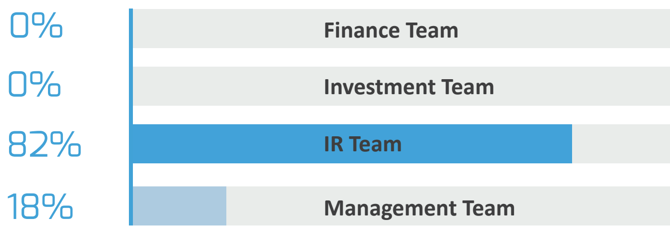
INVESTOR RELATIONS - DELIVERABLES

In this section we looked at a number of the component parts of the service that is delivered by GPs to their investors and asked the LPs to first identify which function within the firm is responsible – the Management team, Investment team, Finance function or Investor Relations. We then asked each LP to confirm which of those teams or functions they believed **should** have responsibility.

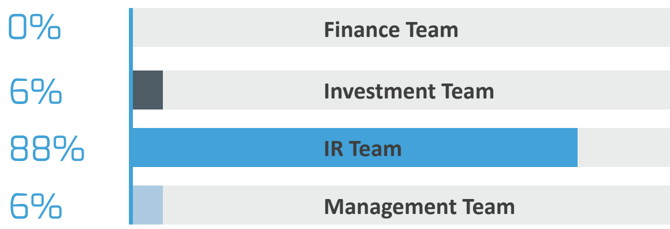
The purpose of this exercise was to help us understand how much of the service currently being delivered to the LPs the IR teams are perceived to be responsible for, but also to understand whether the LPs would prefer to see another team or function have the responsibility.

RESPONDING TO ENQUIRIES AND REQUESTS FOR INFORMATION

CURRENT RESPONSIBILITY



PREFERRED RESPONSIBILITY



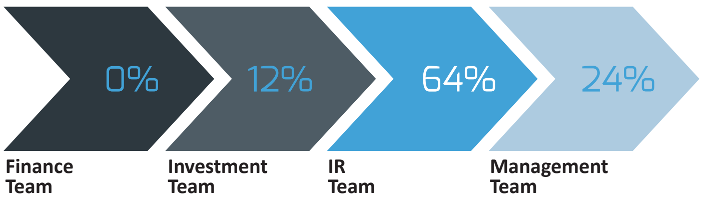
Unsurprisingly the majority of respondents believe this is, and should be, the responsibility of the IR team which mirrors the feedback we received confirming that LPs do not believe this should be the responsibility of those involved in the investment activities of a firm.

COMMUNICATION

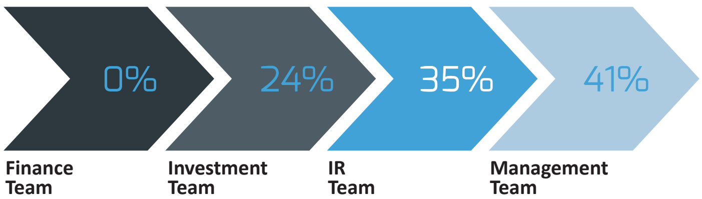
The feedback received suggests that it is the subject of the communication that dictates which member of the firm or which team should deliver it. Whist it is widely accepted that information and updates relating to the firm, its funds and underlying portfolio companies will be provided by the IR teams, LPs would evidently prefer news which could have an impact on the value of their investment i.e. news that a portfolio company is in difficulty, the departure and succession of key members of the team - to be delivered to them by the Management team. This is not believed to be a reflection of the capability of the IR team but rather that the LPs concur that it is the Management teams who have ultimate responsibility for the firm and therefore must not only communicate the news but also provide details of how a situation is to be managed and in some cases, rectified.

COMMUNICATING BAD NEWS

CURRENT RESPONSIBILITY

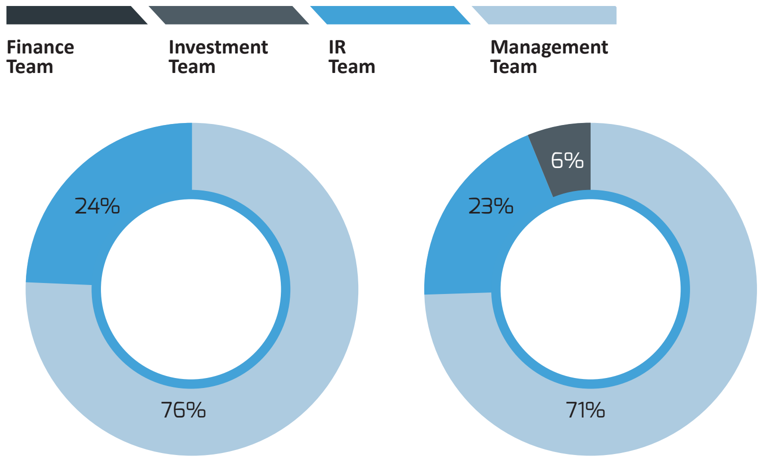


PREFERRED RESPONSIBILITY



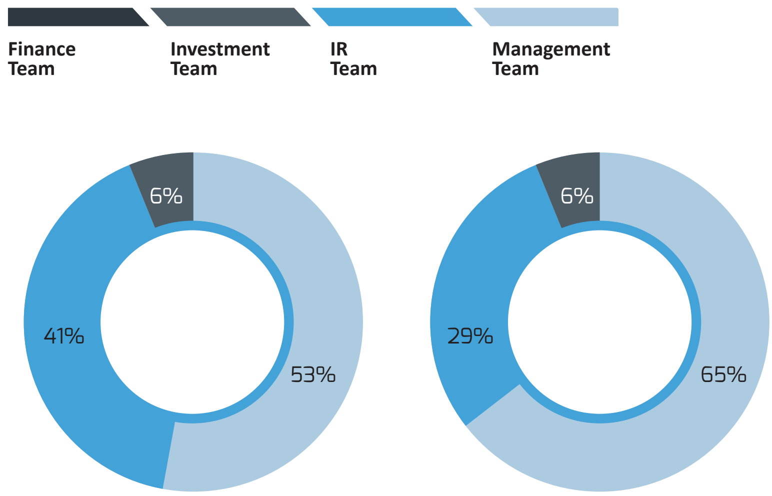
The feedback received suggests that it is the subject of the communication that dictates which member of the firm or which team should deliver it.

COMMUNICATING DETAILS OF SUCCESSION PLANNING



CURRENT RESPONSIBILITY **PREFERRED RESPONSIBILITY**

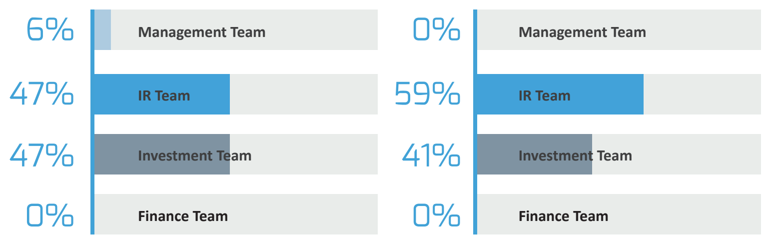
COMMUNICATING KEY MAN ISSUES



CURRENT RESPONSIBILITY **PREFERRED RESPONSIBILITY**

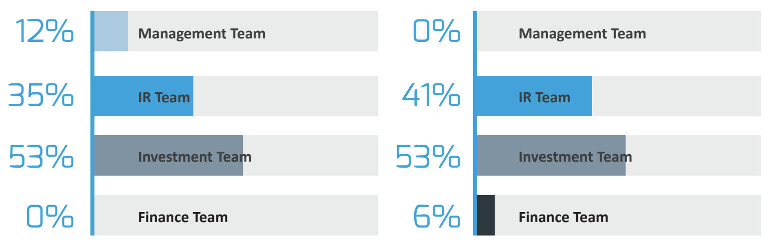
UPDATES AND EXPLANATIONS ON INVESTMENT ACTIVITY INCLUDING TEMPO OF INVESTMENTS

Unsurprisingly given the closeness of the investment professionals to the market, the Investment team are key to the provision and delivery of information pertaining to the investment activity of a firm. However, it is encouraging to see the IR team assuming both current and preferred responsibility for updates of this type which require knowledge and understanding of the firm and its strategy within the context of the market environment. This supports our observations that the role of IR is becoming more integral within the industry and could highlight the evident "upskill" within the function.



CURRENT RESPONSIBILITY PREFERRED RESPONSIBILITY

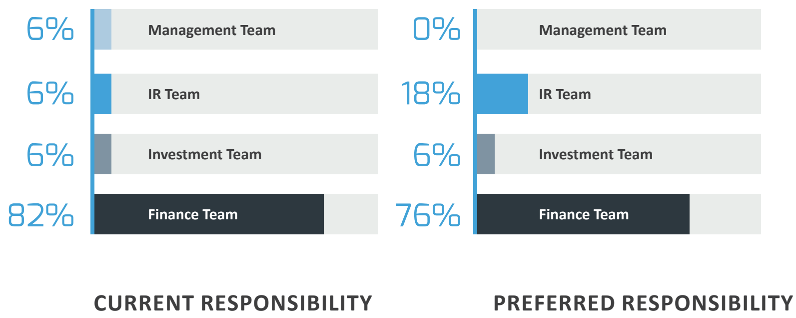
UPDATES ON INVESTMENT ENVIRONMENT INCLUDING PRICING LEVELS



CURRENT RESPONSIBILITY PREFERRED RESPONSIBILITY

LPs would evidently prefer news which could have an impact on the value of their investment to be delivered by the management team.

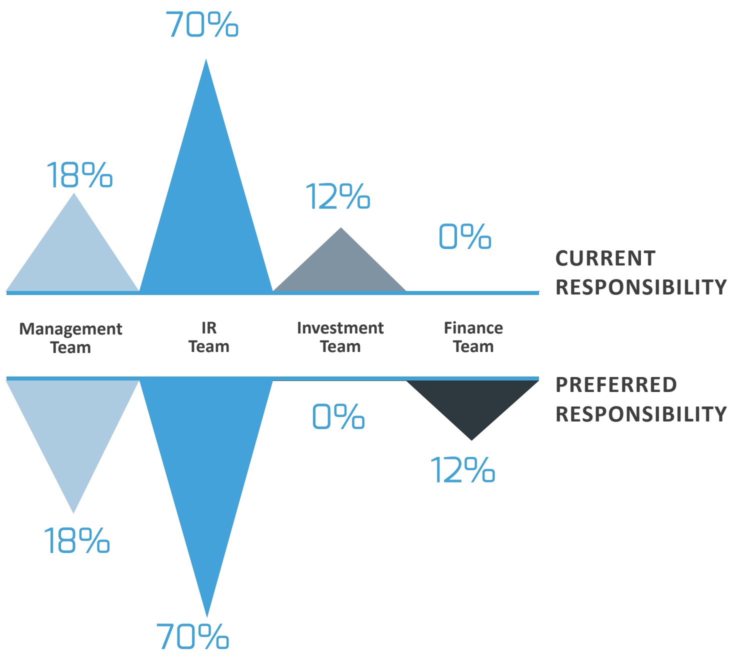
DRAFTING OF CONTENT OF FINANCIAL REPORTS



This feedback is interesting because whilst the responsibility for drafting the content of the financial reports often falls within the remit of the IR function, it is still not standard practice. This is reflected in the feedback which confirms that LPs believe this function to be the responsibility of the Finance team. It is however common amongst the firms that we speak to for the IR teams to oversee the production of and have responsibility for all information leaving the firm which includes the financial reports and any updates from the firm, its funds or underlying portfolio. In many instances this may be a regulatory requirement.

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE (AIFMD) GUIDELINES

Unsurprisingly the responsibility for this function falls to the IR team which mirrors the sentiment expressed in the survey last year.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) / RESPONSIBLE INVESTMENT (RI)

Interestingly and contrary to media reports, only **43%** of LPs believe it is imperative that GPs have an ESG or RI policy in place with **31%** going so far as to say that it is NOT important.

A copy of the policy document is required by over 80% of LPs as a demonstration of a GPs adherence to such a policy and 40% of those LPs surveyed want to receive a dedicated update.

Of interest, **50%** think adherence to ESG/ RI gives a GP a competitive advantage when fundraising whilst **50%** do not.

LIMITED PARTNER DISSATISFACTION

Whilst the feedback received has been broadly positive with 37% of those LPs surveyed confirming that the service they have received from their GPs has shown signs of improvement or substantially improved, it is evident from the feedback that there are some elements of the service which need to be improved.

56% of the LPs surveyed confirmed that they are most dissatisfied with the timeliness of delivery of reports. **44%** are dissatisfied with the quality and content of the reports they received and **50%** are dissatisfied with the frequency of communication.

However, despite evident dissatisfaction, only **44%** of the LPs have discussed their dissatisfaction with GPs, citing specific issues and concerns including the quality and transparency of the information provided in reports and the materials provided at a firm's Annual General Meeting. One LP confirmed that they had spoken to one of their GPs about an incidence of reading about an issue in the press before the GP had talked them about it. Of the LPs surveyed, 56% have not discussed their dissatisfaction with the service with their GPs typically because the opportunity has not arisen.

FUTURE REQUIREMENTS

75% of LPs surveyed expect there to be an increase in the IR remit going forward which is anticipated to be driven primarily by the continued increase in volume of information required and the increase in co-investment activity for which a number of IR individuals and teams are responsible. According to a report published by Preqin in November 2015, 30% of the 320 GPs surveyed stated that 81-100% of LPs in their latest funds have co-investment rights included in their Limited Partnership Agreements.

However, whilst the majority of LPs anticipate an increase in the remit, more than half believe that GPs are not adequately resourced to meet the increase. When coupled with the feedback that 50% of respondents agree that investment professionals should not be responding to questions and requests for information in order to be able to concentrate and focus upon investing, it is clear that GPs must actively review their IR resources to ensure that not only are they able to meet the growing needs of their LPs but they also rectify any residual issues with the service they provide

However, despite evident dissatisfaction, only 44% of the LPs have discussed their dissatisfaction with GPs.

Section 4

SUMMARY

Otter *- Using trained otters to fish in rivers has been practised since the 6th century AD in various parts of the world, and is still practised in southern Bangladesh. The role of the otter is to search for and disturb fish hiding in nooks and crannies of the rivers and force them into the nets of the fishermen. The otter is subsequently rewarded in the case of a good catch.*

SUMMARY

Once again, the feedback received from participating LPs has provided invaluable insight into how the role of Investor Relations is perceived, and it is evident that as the role has grown and developed in terms of breadth of remit, so too has its value to both existing and prospective LPs.

For existing LPs, the findings of our research prove that they recognise the benefit of having a dedicated IR function in place to provide an effective and efficient conduit between LP and GP. However, given the feedback from those LPs surveyed that they expect their information requirements to continue to grow, it is important that IR functions are adequately resourced to ensure the service delivered meets the growing demands of LPs.

Similarly, for those firms looking to commence fundraising, the findings also confirm that the presence of a well-regarded, efficient IR function can have a significant impact on fundraising and can influence an LPs decision to commit. It is clear from both feedback received and our experience that the IR function can really add value by forging strong relationships with LPs, keeping them updated on investment performance, the strategy of the firm and its investment portfolio within the context of the changing market environment and abreast of any changes to the firm's structure and strategy which may have an impact on the value of investments. The IR function will ensure the timely delivery of accurate reports and ensure that they are able to respond to questions and requests for information as quickly as possible. In turn, they will keep the firm abreast of the LPs investment focus and allocation strategy, all of which is invaluable to ensuring that LPs re-up to future funds. This is particularly pertinent given the expectation that the next 12 months could prove challenging for those firms in the market seeking to raise funds. (source: Preqin)

Here at Stevenson James, we are looking forward to being part of the continued development of this market and being involved in the industry-wide debate that surrounds the importance of the role of IR not just within Private Equity but the wider Private Capital market

INVESTMENT | FUNDRAISING | INVESTOR RELATIONS | ADVISORY

Stevenson James,
111 Buckingham Palace Road,
London SW1W 0SR
www.stevensonjames.com
Tel: +44 (0)20 7734 5001
Email: info@stevensonjames.com

stevensonjames
search & advisory