

THE STEVENSON JAMES INVESTOR RELATIONS AND FUNDRAISING SURVEY 2013

STEVENSON JAMES

Stevenson James is an Executive Search and Advisory firm established in 2004 by Richard Collins and Tom Quinnen who have a combined 30 years of search experience. The firm is solely focused on sourcing talented individuals within the Alternative Assets industry and, specifically, Private Equity. The firm covers all investment disciplines, Investor Relations (IR) and Fundraising for General Partners (GPs), alternative asset managers and placement agents. Tom and Richard's history with the fundraising sector can be traced back to their work with Helix Associates who, it could be argued, were one of the leading pioneers of the European placement industry.

In February 2013 Josephine Defty joined the firm following an IR career that included roles at Pantheon Ventures, XS Investments (a boutique placement firm) and Advent Venture Partners. Josephine's addition to the firm strengthened its competitive advantage given her understanding of the IR role. In addition, having an ex-industry professional has provided valuable insight to candidates as they consider careers within IR, as well as clients seeking qualified IR professionals. In addition, her industry experience has been additive to the advisory work undertaken by Stevenson James, as it was this background that drove the creation of the Stevenson James IR and Fundraising survey, the first, we believe, of its kind.



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BACKGROUND

The European Private Equity IR function is one that continues to evolve in reaction to the dramatic changes in fundraising conditions post the credit crunch in 2008. As yet, there have been no clear trends to emerge on how best to execute IR, nor how the function is perceived by the Limited Partner (LP) community. With this in mind, the objective behind the Stevenson James IR and Fundraising Survey was to garner opinion from a diverse group of LPs on the service they receive. From the results, we hoped to gain an insight into the IR function, how it was perceived, how it should be compensated and how it was executed. Our objective was to create debate around the IR deliverable from all market participants and, through our IR Search practice, encourage - along with other industry bodies - an ethos of "best practice".

Given that IR is a blend of relationship management together with more technical skills and knowledge, we determined to use both quantitative questions that could be answered on a sliding scale, together with providing LPs with the opportunity to respond more qualitatively.

In structuring the survey, we broke the questions down into three key areas. We firstly looked at defining the function, including how valuable it was to LPs, the skills and qualifications needed by an IR professional and how the role should be compensated. The second area focused on the deliverable where we asked LPs to comment on how well the function was resourced, their reporting requirements, the role of IR when re-upping or committing to a GP and the use of placement agents. Finally, we looked at future requirements and how prepared GPs were to meet the needs of LPs going forward.

Given the survey was the first of its kind, the goal was to approach a targeted group LPs from across the UK, Northern Europe, the US and Switzerland. We wanted to ensure the survey respondents represented a blend of investors and spoke to public and private pension funds, fund of funds (FOFs), family offices as well as alternative assets investment managers.

Whilst size of assets allocated to private equity was clearly a key determining factor, it was important to approach LPs with whom we had existing strong relationships. This was achieved through utilizing the wide LP relationships built up by Josephine over her career, together with the existing Stevenson James industry contacts which resulted in responses from LPs representing over £80bn* allocated to private equity across a wide variety of investment strategies.

We extend our grateful thanks to the LPs who kindly gave their time during phone calls or meetings to participate in the survey, and for providing a very interesting and detailed insight into the IR function.

EXECUTIVE SUMMARY

The Stevenson James IR and Fundraising Survey set out to gather opinion from a varied group of LPs for their thoughts on the IR and Fundraising function. Specifically how they, as consumers of the end product, viewed the service they received and its importance alongside other functions.

We undertook the research over the second and third quarters of 2013 and received responses from a wide variety of LPs representing over £80bn* in assets, including private pension funds, public pension funds, fund of funds, corporates and family offices. Unsurprisingly, the results were quite polarised, with LPs either having very strong views on the function or providing more moderate comments. This could be seen to accurately reflect the current market status with some GPs applying time and resource to their teams and others taking a more passive approach.

- All LPs surveyed rated the IR function as important or very important with comments including "crucial", "a very important function" and the "main point of contact for us".
- 50% of LPs felt the IR function was moderately well resourced, with 19% of LPs commenting that it was inadequately resourced.

Comments from LPs included "pitiful" and "too difficult to respond, some are good, some are awful" and "GPs are generally under resourced in this area". This lack of satisfaction is further evidenced with the majority of LPs envisaging an increase in the remit of the IR function going forward and with only 18% concluding that GPs are fully prepared to meet this need.

Given the comments surrounding the resourcing of the function, we believe this highlights the fact that there is still some work to be done in bridging the gap between the current deliverable and LP expectations.

Of further note was the scoring by LPs on the skills and qualifications needed by an IR professional. Every LP commented that Relationship Management skills were essential for the function versus more varied responses across the need for Investment Experience, Professional Qualifications and Transactional Experience.

The Stevenson James IR and Fundraising Survey set out to gather opinion from a varied group of LPs for their thoughts on the IR and Fundraising function.

The IR individual is the main one for us, the one we would develop the strongest relationship with.”

With a growing shift by GPs to separate out the fundraising function and hiring pure sales people, a trend that will only grow given the on-going challenges with fundraising, it is notable that there remains a desire by LPs to have a strong Relationship Manager in place. With this fact the structure of IR teams will need to be carefully considered.

Overall, there can be no denying that the majority of market participants no longer see the IR/Fundraising function solely as a marketing and communication function. With a fundraising market that continues to be challenging (The 2013 Grant Thornton Global Private Equity Study estimates that 2,000 new private equity funds are currently vying for \$730bn of uncommitted capital) and GPs needing to think of more innovative ways to attract LPs, this view will continue to be reinforced. However, there would appear to be some way to go before the deliverable matches the expectations of the end client, the LPs, especially as GPs no longer see the Investor Relations and Fundraising roles as fungible, as they have done in the past.

DEFINING THE IR FUNCTION

For our survey respondents, the overall premise for the IR role is to act as an interface between the LP and the investment team. The requirements for the role varied however, the main tasks included portfolio updates, operational and business updates, responding to general data, regulatory requests and fundraising updates.

Alongside that, with the increase in LPs seeking improved terms on their commitments (such as fee breaks on larger commitments and co-invest rights), an individual is needed who is able to manage and negotiate terms. Whilst it was noted that the role should never replace contact with the investment team, one LP commented that the Investor Relations individual was “the main one for us, the one we would develop the strongest relationship with.”

Alongside that, a crucial part of the role is to work with LPs well in advance of an anticipated fund raise, allowing the LP time to prepare and allocate resource for the necessary due diligence. All LPs surveyed agreed on the importance of the role however there was a degree of variance regarding the skills and qualifications needed.

SKILLS/QUALIFICATIONS OF AN IR PROFESSIONAL



It is interesting to note that Investment and Transactional Experience is either desired or preferred. Given the on-going move away from traditional fund models and towards routes such as deal by deal and higher percentage of co-investments, it is perhaps not surprising that LPs are looking for more direct investment experience (or at least a thorough investment understanding) from the IR individual. One LP commented that “in our experience the best IR people have investment backgrounds and are able to offer insights into the portfolio”.

69% of LPs surveyed felt that part of the IR function should be to act as a conduit between the investment team, although only 31% felt this was actually fulfilled. It was not clear from our findings whether the problem derived from the IR or investment side of the business however, the overall message was that the IR function should not be a barrier to the investment team and therefore a careful balance needs to be maintained.

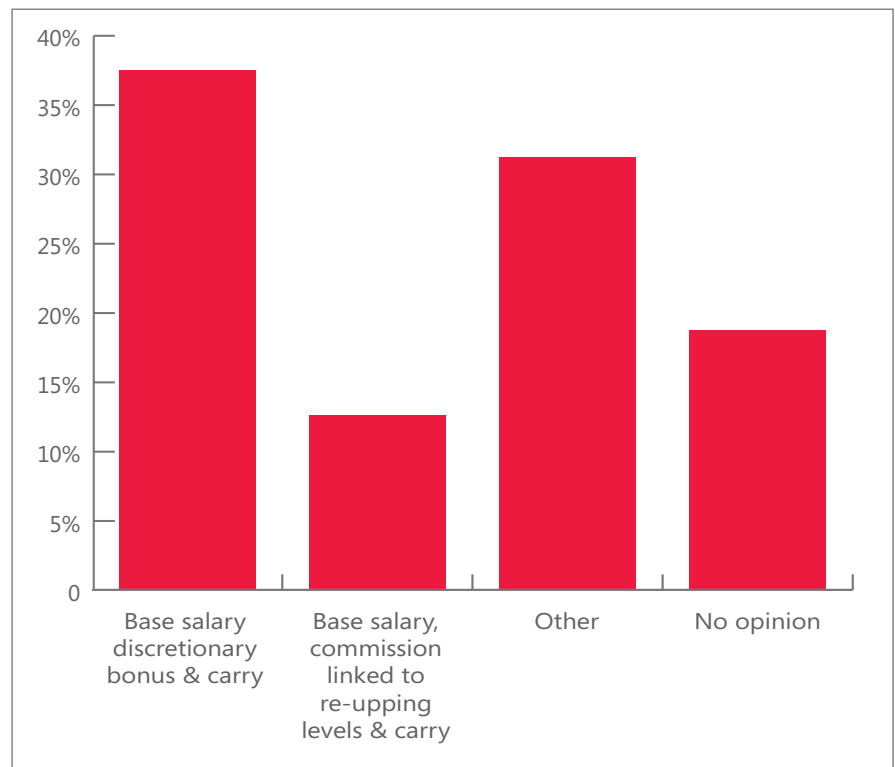
Following this, we asked LPs if IR individuals should have a seat on the Investment Committee. 44% responded that the IR individual should have a seat, albeit with the important caveat that this was as an observer only. A number of LPs commented that having the IR person present at these meetings provided “eyes and ears” for the LPs.

In terms of regulatory knowledge, whilst some LPs felt this should sit with the Finance and Operations function, over 50% felt that the IR function should be able to cover regulatory issues and with the on-going debate and comment around AIFMD and other regulatory matters, this can only continue.

“In our experience the best IR people have investment backgrounds and are able to offer insights into the portfolio”

LPs were wary of IR professionals moving from one GP to another, following fundraising activity

COMPENSATION



This proved to be an interesting topic with 80% of LPs having an opinion on how the IR function should be compensated and LPs providing commentary rather than simply responding to the quantitative responses.

COMPENSATION STRUCTURE

There was a general consensus that carry should be included as part of the compensation package. In addition, that compensation should be linked to the performance of the fund and not just on fundraising targets. There was a clear desire to incentivise professionals to remain with the firms and LPs were “wary of IR professionals moving from one GP to another, following fundraising activity”. This view reinforcing the earlier commentary on the Investor Relations professional being someone whose primary focus should be on building relationships for the longer term.

31% of LPs had suggestions for other forms of compensation which included having a bonus based on re-upping levels, together with an assessment of LP satisfaction on the service received. Others favoured a small bonus with commission paid on re-upping commitments.

INVESTOR RELATIONS – DELIVERABLE

The issue of whether GPs were adequately resourced within their IR function generated a substantial degree of comment.

- 50% of respondents felt the function was moderately well resourced with 19% of LPs believing it to be inadequately resourced.

The overriding theme seemed to be the dispersion of the quality of the service received, with comments ranging from “GPs are mainly short staffed in this area”, “Some GPs still think they don’t need an IR function” to an acknowledgement that the IR function is under pressure with the demands made by new and increased regulatory changes, and the need to engage, as highlighted earlier, with LPs at least two years before any planned fund raise.

LPs also commented on the difference in the IR service they received from GPs.

- 94% of LPs observed that there was a strong or marked difference in the delivery of the IR function.

Given the differing sizes of GPs this is perhaps not surprising however, 25% of LPs would like to see a standardisation of the service received. This is primarily driven by a desire to have standardisation of reporting however other comments included processes such as quarterly calls and emails which not all GPs undertake. One LP commented that it would not be possible to standardize the deliverable as there were not enough “best in class” GPs to set the standard.

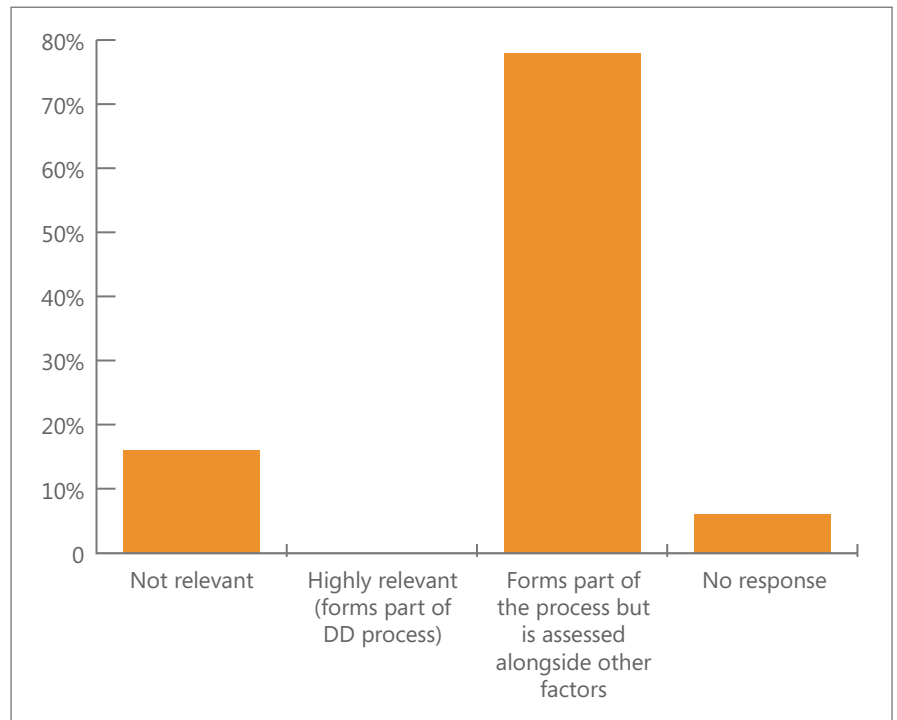
In terms of how European GPs match up to their US and Asian counterparts, there were a wide variety of responses including an observation that US GPs are generally more consistent but not always such good quality, and an acknowledgement that European GPs probably develop better, dedicated staff with past investment experience.

Overall, the message would seem to be that there is still work to be done by some GPs to bring their IR functions to a level that will meet LPs expectations. This is especially pertinent when assessing the responses by LPs to their decision making process for re-ups. Whilst one would not expect the quality of the IR function to drive a decision to commit to a fund, it is noticeable that over 70% of LPs acknowledged that it did form part of the overall process.

LPs observed there was a strong or marked difference in the delivery of the IR function

Some GPs still think they don’t need an IR function

IR IMPACT ON THE RE-UPPING/COMMITMENT PROCESS



When asked if LPs had raised these concerns with their GPs, just over 30% had done so with a recent article by AltAssets commenting that LPs “needed to be much better” at providing feedback, in general, to GPs.

It is difficult to assess why LPs are not covering these points with their GPs however, it could simply be down to the limited amount of time and resource available to LP. The latest figures from Preqin show that the average number of fund marketing documents investors receive each quarter is 35, but 10% of investors receive documentation for over 100 funds per quarter.

USE OF PLACEMENT AGENTS

Overall LPs are generally happy with the use of placement agents by GPs with 75% being moderately comfortable when a placement agent is hired. However, most LPs had additional commentary and whilst there was a general consensus that placement agents can add value when targeting a specific jurisdiction, care must be taken not to duplicate the work of the IR team given the cost of using a placement agent. In addition, once the placement agent has made the initial introduction, it was preferable to have the IR team at the GP take on the new relationship once the introduction had been made.

FUTURE REQUIREMENTS

- 70% of LPs advised that their reporting and information requirements have increased since 2008

A key factor is the introduction of new regulatory requirements, however another key driver is LPs' increased demand for more detailed information at the fund or portfolio level and increased pressure from some LPs' underlying clients for greater transparency in reporting.

- 80% of the LPs surveyed envisage a large to substantial increase in the Investor Relations remit going forward
- Only 18% of LPs surveyed believe that GPs are fully prepared to meet this need. One LP commented that the "major problem is the lack of appropriate staff to undertake the IR function."

Alongside this, some LPs acknowledged that "GPs have really understood the importance of IR over the last few years" and the "penny has dropped" in terms of recognising the importance of the function and its role.

SUMMARY

As initially highlighted, it would appear that the debate surrounding the IR function shows no sign of abating. Whilst it can be demonstrated that LPs do value the function, there would seem to be a wide dispersion on the level and type of service received and this has provoked comment and a desire for improvement. Thus, for GPs who have allocated resource to this area, the question becomes less about the importance of the function and more about how it can be optimally structured and delivered.

For the remaining GPs who do not have a dedicated IR resource, the increased pressure from extended fundraising periods, together with the number of funds seeking commitments from a shrinking pool of capital and increased demands from LPs, IR will remain an on-going topic for focus and discussion.

Stevenson James looks forward to participating in the continuing IR debate, and playing an active part in industry initiatives that seek to improve the IR function both for the LPs, GPs and the IR professionals themselves.

Once again, we extend a grateful and heartfelt thank you to the LPs who participated in the survey.

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