Buyouts

Emerging Manager Report 2020

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Buyouts

Emerging Manager Report 2020

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Insight

Buyouts Emerging Manager Survey 2020 **Covid-19 is changing the private equity landscape beyond recognition. Here are the key findings every emerging manager should know**

The covid-19 pandemic has wreaked human and economic devastation. Even as some parts of the world move out of lockdown, the potential for second wave outbreaks mean uncertainty continues to reign supreme. For private equity houses this means severe restrictions on the ability to do deals and raise fresh capital. For institutional investors, it means intensive portfolio triage and challenges with putting fresh money to work. The fundraising effects of the crisis have been particularly intense for emerging managers, with LPs tending to prioritize existing relationships, according to the results of the fourth annual *Buyouts Emerging Manager Survey* conducted in partnership with Gen II Fund Services, LLC. But new funds also have the advantage of being unencumbered by troubled legacy portfolios, allowing them to focus on the buying opportunity ahead.

Source for all charts: Emerging Manager Survey, published by *Buyouts* in partnership with Gen II Fund Services

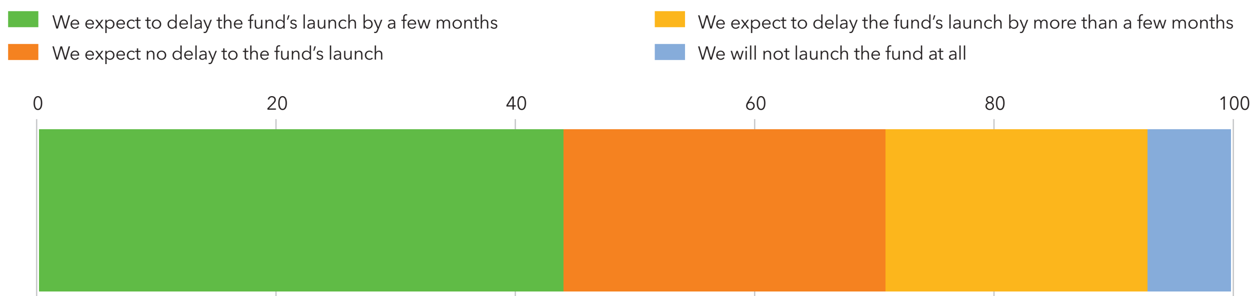
Under pressure
Almost 90 percent of emerging managers believe that the pandemic and international lockdowns will make raising funds at least moderately more difficult. Meanwhile, 66 percent believe fundraising will become "a lot" or "a great deal" more difficult from now on. In part, this is a result of internal firefighting which is forcing some investors to prioritize existing relationships. Overwhelmingly, however, LPs are also citing the logistical obstacles to due diligence as a barrier to making new investments. "The unique restrictions of activity associated with covid-19 makes fundraising activity that much more difficult," says Richard Spencer, head of funds and co-investment at Barings.

To what extent do you think fundraising for emerging managers will be made more difficult in light of covid-19?

Pause for thought

Several months into the pandemic, business as usual is still a long ways off. Indeed, the days of prolific traveling and face-to-face due diligence meetings may never return. In light of this uncertainty, many emerging managers that had been poised to launch vehicles prior to the outbreak have since chosen to postpone fundraising, at least in the short term. Almost half – 44 percent – expect a delay of a few months, while 22 percent expect the delay to be longer. Only 27 percent are planning for no delay at all. A further 7 percent, meanwhile, have abandoned plans to raise a fund altogether.

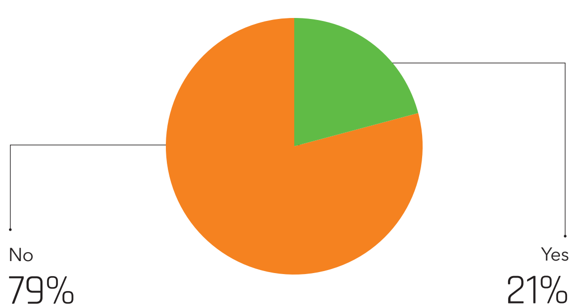
If you were planning to launch a new fund (%):



Neither shaken nor stirred

Despite the global economic shock caused by the coronavirus, 79 percent of investors say their allocation to emerging managers has not changed. The release of Q2 valuations could change that, as could a further deterioration in the public markets. But, by and large, LPs with defined emerging manager programs remain convinced by the benefits of bringing fresh blood into their portfolios. "Diversification is critical… If you only stick with your existing mid-cap or larger managers you will see a lot of repetition in types of deals," says Claire Kendrick, managing director of alternative investments and research at Mill Creek Capital Advisors. "We know that, in a downturn, that repetition could hurt us."

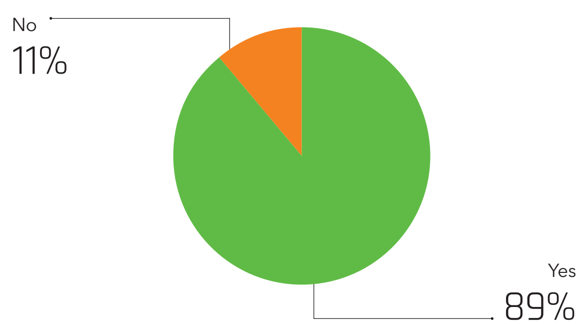
Have recent market gyrations (to multiples, valuations) caused a change in your allocation to emerging managers?



First time's a charmer

An overwhelming 89 percent of investors surveyed say they will back a debut private equity or venture capital fund. Although there are challenges associated with identifying and underwriting the unproven, many believe the rewards outweigh the risks and so the appeal remains strong. "Supporting emerging managers often comes with strong alignment, a more conviction-weighted investment approach and the opportunity for high returns," says Derek Schmidt, director of private equity at investment consultants Marquette Associates. Janusz Heath, senior managing director at Capital Dynamics, adds: "It's about trying to identify energized, ambitious new talent."

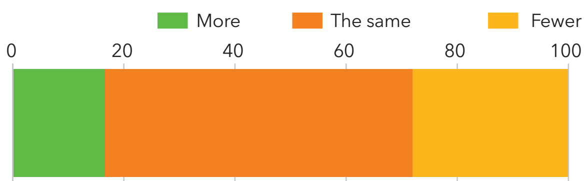
Will you back a debut PE/VC fund?



Fear of commitment?

Despite LPs' insistence that their appetite for emerging managers remains strong, only 17 percent intend to increase commitments to first-time funds over the next 12 months and 28 percent intend to reduce them. This is, perhaps, inevitable, given the uncertainty that has dominated the first half of the year and is likely to continue for the foreseeable future. "The current environment hasn't impacted our ability to back emerging managers, but it has slowed it," says Schmidt. "We are certainly proceeding more cautiously with due diligence and virtual on-sites, as we would prefer to meet face-to-face. Nonetheless, we have been able to approve a few strategies."

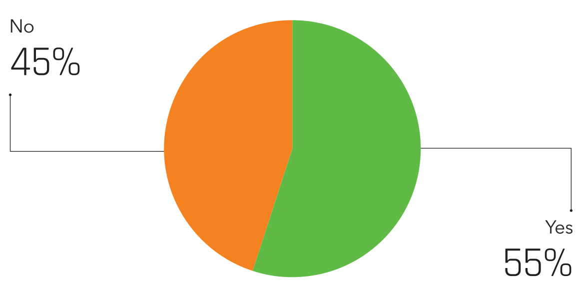
Do you plan to make more or fewer commitments to first-time funds compared with the previous 12 months? (%)



Anchors aweigh

Investor willingness to make anchor commitments to emerging managers is divided. Fifty-five percent of limited partners – down from 76 percent of LP respondents to our 2019 survey – would anchor a first-time fund. For the fund manager, of course, the anchor investor is crucial. The quality of the institution serves as a benchmark for future LPs. For the investor, there are advantages to coming in early – particularly the opportunity to exert influence on the LPAC, access co-investment, take a stake in the management company or gain preferential terms. But there are risks, including the possibility the manager will fail to hit target commitments, and the anchor investor will become over-weighted in the fund.

Would you make an anchor commitment to an emerging manager?

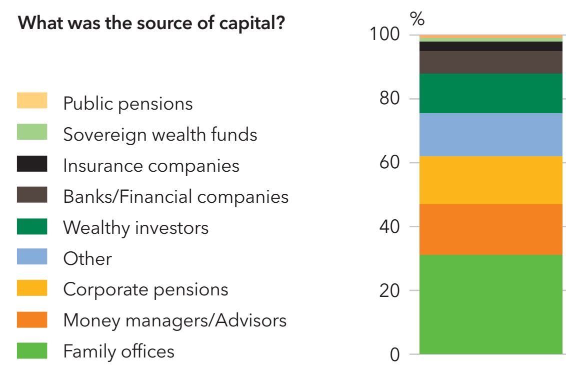


Follow the money

Family offices, wealth managers and wealthy individuals dominate the emerging manager investor pool, accounting for 60 percent of capital raised – up substantially from 43 percent last year. Sovereign wealth funds, insurance companies and financial institutions remain more conservative. "Wealth managers and family offices are more able to get their heads around emerging managers," says John McCormick, managing director at Monument Group.

Lindel Eakman of the Foundry Group adds: "A few well-known fund of funds are active but most – including us – have low appetite at this point."

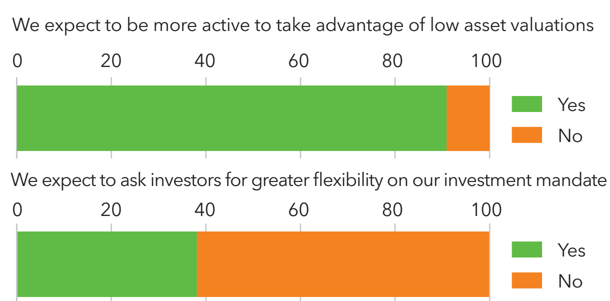
What was the source of capital?



Opportunity from crisis

One of the advantages emerging managers have in the current environment is that they are not overly burdened by extensive legacy portfolios. As such, they are able to focus on the new opportunities and attractive pricing likely to emerge in the months to come. Ninety-one percent of emerging managers expect to be more active dealmakers as they look to take advantage of low asset valuations as a result of covid-19, while 38 percent expect to ask investors for greater flexibility on their investment mandate.

What effects do you think the covid-19 crisis will have on your firm's dealmaking? (%)



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Editor's letter

With greater risk comes greater reward

Chase Collum
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It may not be surprising that in our poll of the emerging manager marketplace this year, our results were mixed.

Bad news first. There is some warranted trepidation on the part of LPs, with more than a quarter of those we surveyed saying they plan to make fewer commitments to new funds this year. Likewise, 66 percent of emerging managers who were planning a fund launch plan to delay a fundraising and 7 percent plan to abandon fundraising plans altogether.

> **"The already high returns investors have come to expect from emerging managers could be boosted"**

The good news, however, is that there is still plenty of appetite for first- and second-time funds, with 89 percent of institutional investor respondents reporting that they would still back these vehicles. Another plus: 91 percent of managers expect that they will actually be more actively dealmaking in the near term to take advantage of low asset valuations, which means the already high returns investors have come to expect from emerging managers could be boosted further with the right time horizons.

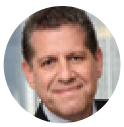
Over the past three years, previous iterations of this report have focused almost entirely on the quantitative data we gather from the market. This year, while that data still forms the heart and soul of this report, we have gone a step further, gathering qualitative intelligence from the market to further understand how investors feel about emerging managers in the current climate.

As we studied the data and ruminated on what we heard from our sources, one thing became clear above all: while the risk of engaging with new managers has indeed been heightened by the current crisis, it is still very much a risk worth taking for a great many institutional investors.

We hope that you will enjoy reading this report as much as we have enjoyed preparing it.

Chase Collum

The Gen II view **Experience matters more than ever in a global pandemic**



Expert analysis by **Jeff Gendel**, principal

This year's *Emerging Manager Report*, published by PEI in partnership with Gen II Fund Services, LLC would be difficult to cover without discussing the covid-19 pandemic, certainly the biggest disruptor to the private equity industry since the 2008 global financial crisis.

After several years of continued growth in the number of new emerging managers and expansion of capital allocated to them by limited partners, market observers are expecting the rate of growth for new emerging managers to decline significantly.

But that has not stopped some aspirational GPs from plowing ahead, replacing the traditional face-to-face meetings and due diligence sessions with Zoom calls. Comforting to these sponsors is the statistic within this year's survey that reflects nearly 80 percent of investors will not change their allocations to emerging managers despite market gyrations.

> "What has remained consistent year over year is the importance of experience when choosing service providers"

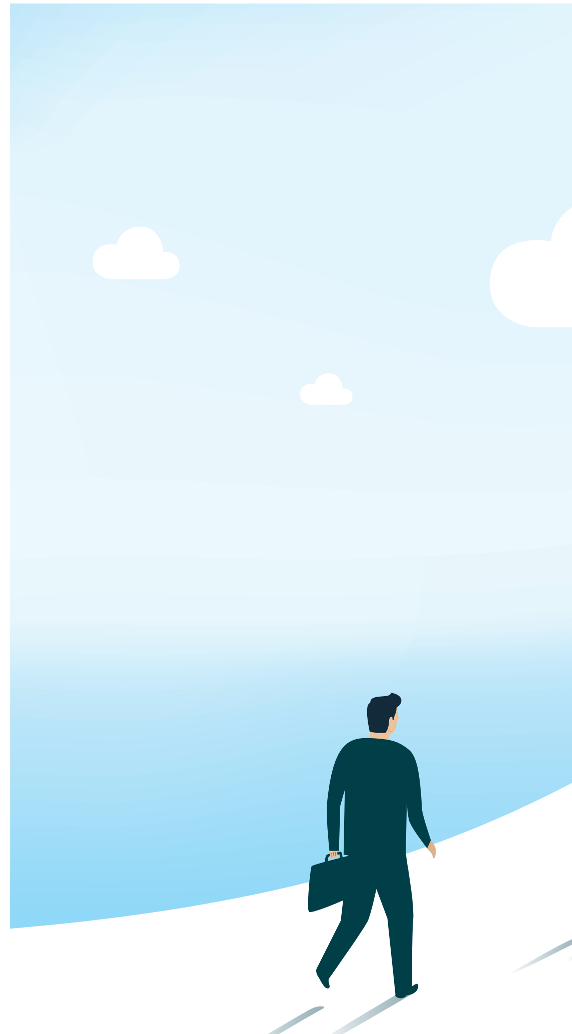
It is no surprise for emerging managers that the task of launching a new fund has become more challenging during this current economic climate – everything from fundraising to conducting internal meetings to managing the operations of their nascent businesses comes with a higher hurdle, and the survey reflects this expectation through expanded time to reach a closing.

The survey found that 89 percent of GPs believe emerging managers will face moderate to a great deal of fundraising difficulty due to covid-19 and 51 percent of surveyed GPs will be delaying the launch of a new fund or extending a current fundraise for at least several months.

Sharing the load

Despite the challenges the market currently faces, what has remained consistent year over year is the importance of experience when choosing service providers such as fund administrators, auditors, attorneys and other consultants. The survey shows, for the fourth consecutive year, more than 80 percent of all respondents cited "proven expertise and experience with funds like mine" as the most important attribute when choosing a service provider.

In serving emerging managers for more than 25 years, we have found there is no substitute for prior experience. Given the increased complexity of fund structures and importance of the administrator's role servicing private equity funds and investors, it is vital that emerging managers partner with a provider that can demonstrate exceptional experience, team continuity and the ability to perform seamlessly in today's work from home environment.



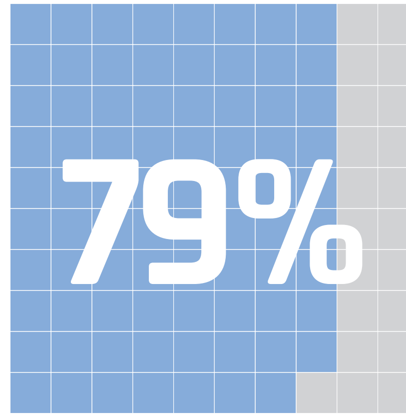
The best service providers understand the fund's unique needs and challenges, can seamlessly meet today's investor requirements, offer proven ability to scale with clients, and can provide expert guidance to the management company and GP entities. And the best path to ensuring your service provider understands these needs is to know that they have extensive experience working with similar emerging managers.

By their very nature, newly forming private equity firms tend to run lean. The principals multi-task, and that requires partnering with experts that can free up the team to focus on raising and deploying capital and managing the firm. An administrator that has a longstanding track record of working with emerging managers to help them navigate the opportunities and challenges of private equity entrepreneurship provides a critical edge for the members of the GP, and a level of comfort for the institutional investor.

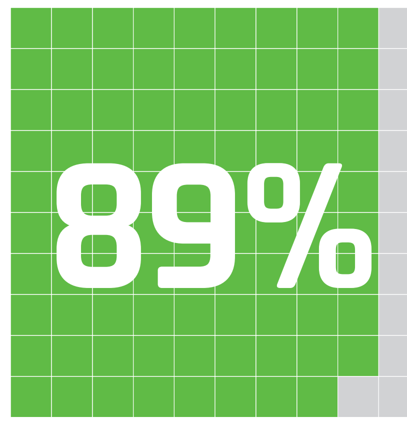
At Gen II, we have helped launch more than 60 emerging managers. We intimately understand the imperative of the private equity entrepreneur to know with confidence that their funds will be well-run, that they can rely on us to act as their trusted partner, offering independent and valuable guidance for our clients, over and above the fund administration services we provide.

In addition to our vast experience with fund vehicles of all levels of complexity, Gen II's expertise extends to administration of management company and GP entities. This valuable service enables the emerging manager to gain the insight of our more than 25 years of working with founders and entrepreneurs on the management of their private equity firms. Our partnership approach to our business relationships is an important

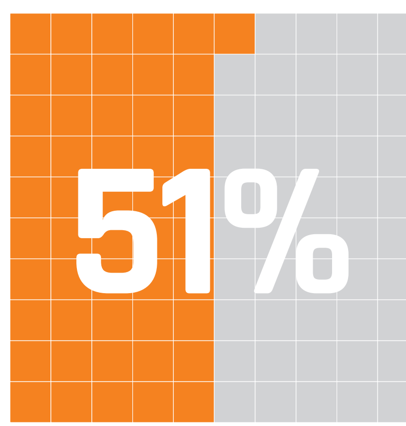
Percentage of LPs that will not change emerging manager allocations:



Percentage of GPs that believe covid-19 will make fundraising more difficult:

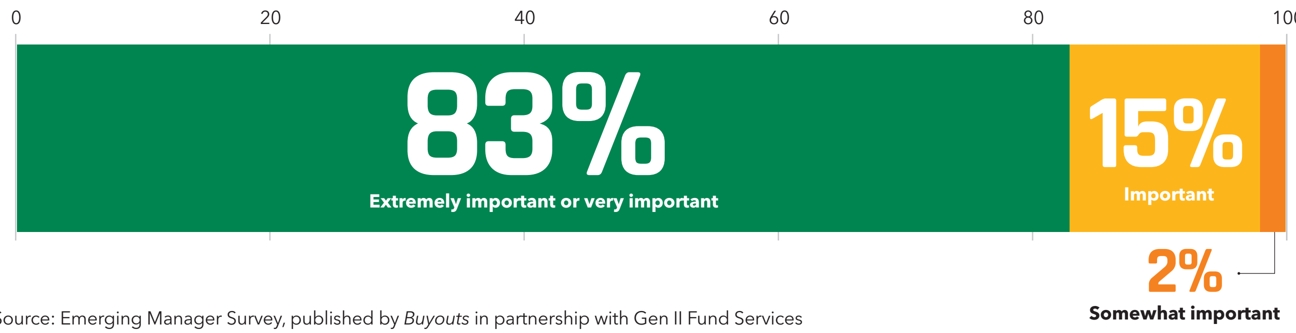


Percentage of GPs that will delay fundraising launch or extend fundraising:



Source: Emerging Manager Survey, published by *Buyouts* in partnership with Gen II Fund Services

How important is proven emerging manager expertise and experience in choosing service providers? (%)



Source: Emerging Manager Survey, published by *Buyouts* in partnership with Gen II Fund Services

differentiator for the emerging managers on Gen II's platform.

Qualifications are key

For managers investigating an administrator for their fund, it is imperative to look for several specific operational qualifications in addition to the requisite experience. The administrator must have an SSAE 18 (Service Organization Control Type 2 [SOC 1] Statement on Standards for Attestation Engagements No 18) issued by the American Institute of Certified Public Accountants.

This certification marks the passage of a crucial independent examination of the administrator's control environment and is a requirement for sponsors and their institutional LPs. In fact, every prospective investor in an operational due diligence meeting in which we participate asks about the SSAE 18.

Any potential service provider should also be in compliance with the SEC's cybersecurity recommendations and be compliant with the General Data Protection Regulation, the California Consumer Protection Act and the New York State Shied Act, as cyber-risk and the security of investor data is top of mind among LPs and GPs. Emerging managers should also expect the administrator to be able to evidence that client-facing items are error-free.

Gen II has met this requirement through the establishment of an internal quality control department, in order to be sure that there is an extra set of eyes reviewing all sensitive and client-facing transactions. The bottom line for any emerging manager is evident: Your fund administrator should enable the sponsor to be able to unconditionally "check all the boxes" that relate to investor operational due diligence.

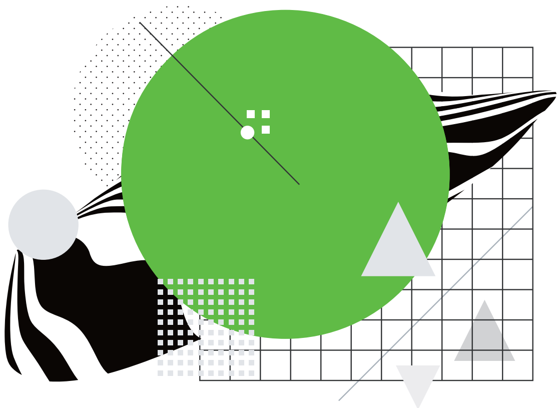
Experience matters

Focusing on the theme of relevant experience, the GP should review lists of the service provider's current GP clients to see if there are firms that the GP considers as peer organizations. As the survey indicates, requisite experience with funds similar to those of the sponsor is the most vital consideration. Exceptionally experienced fund administrators will also be able to provide the sponsor with timely market intelligence and benchmarking data from their past work with similar firms. The ability to offer insight into industry best practices is also extremely helpful for those GPs who are new to the principal and firm leadership role. So, while it is crucial for the service provider to evidence deep experience through working with like firms in order to merit consideration, these other highly value-added services provide the important differentiation across service provider sectors.

> "Your fund administrator should enable the sponsor to be able to unconditionally 'check all the boxes' that relate to investor operational due diligence"

In the overall analysis, an unwavering focus on private equity fund administration, senior team continuity, client retention rates, proven performance and in-depth industry knowledge are all key considerations, in addition to prior experience, when choosing a fund administrator. These attributes have been long established at Gen II – and they are primary reasons why more emerging managers look to Gen II for their fund administration needs than anyone else in the industry.

At Gen II, we know that extensive fund administration experience, expert teams, a customized approach to each client, SSAE 18 certification, cutting-edge technology, robust cybersecurity and data protection and a true business partner that ensures their funds are well-run are what emerging managers seek. Ultimately, as the survey indicates for the fourth year in a row, relevant experience is at the top of the list. Emerging managers will want that experience working for them. ■



Emerging managers fill a critical niche

Unencumbered by legacy portfolios and with hunger and zeal, new GPs could be just what investors need amid a global pandemic

The number of private equity firms globally has more than doubled over the past decade, according to McKinsey's latest annual private equity review. At the same time, longstanding managers have ballooned in size, with assets under management climbing by $4 trillion in the last 10 years. Limited partners' portfolio management approaches have in turn become increasingly sophisticated to take advantage of this dramatic proliferation.

"Clearly the private equity industry has grown enormously and so, a couple of years ago, we looked at our historic performance," says Janusz Heath, senior managing director at Capital Dynamics. "We saw that we have historically generated excellent returns from backing early managers and so, while we don't have a formal program, we now intentionally have a far more open mind when it comes to committing to emerging managers."

> *"We have historically generated excellent returns from backing early managers"*
>
> **JANUSZ HEATH**
> **Capital Dynamics**

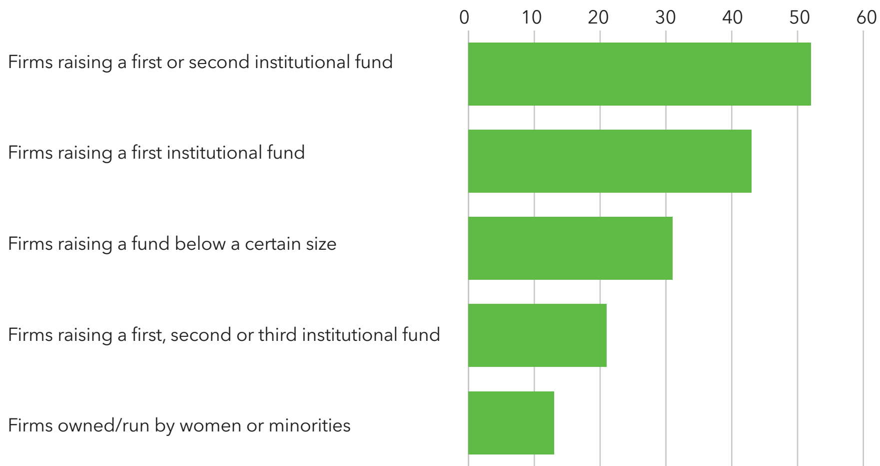
What is an emerging manager?

Definitions for what constitutes an emerging manager vary. For Derek Schmidt, director of private equity at Marquette Associates, it is a manager raising its first, second or third institutional fund. "We consider emerging managers to be those without a significant realized return track record, without an established team that has deployed capital together, and without an established and supportive LP base."

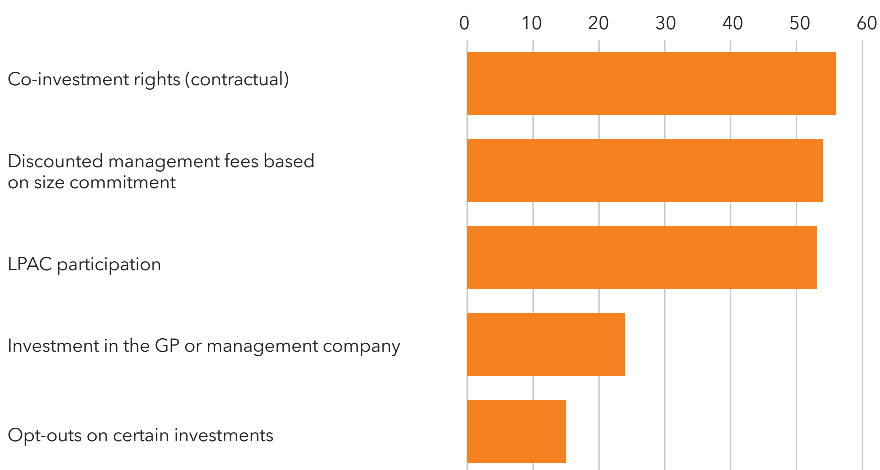
For Scott Reed, co-head of US private equity at Aberdeen Standard Investments, "it can be hard to capture the essence of emerging managers in a single definition. Some investors also take into account the background of the GP." He agrees with Schmidt's definition, but also often gets involved with pre-fund deals.

Thirteen percent of investors surveyed include ownership by women or minorities in their definition of emerging managers. The most widely held

How do you as an LP define the term "emerging manager" when it comes to PE/VC? (Multiple answers allowed; %)



Which of the following terms did you offer/provide to investors? (Multiple answers allowed; %)



view, however, was that emerging managers are those raising fund one or fund two. Just under a third of investors, meanwhile, take the size of the fund raised into account.

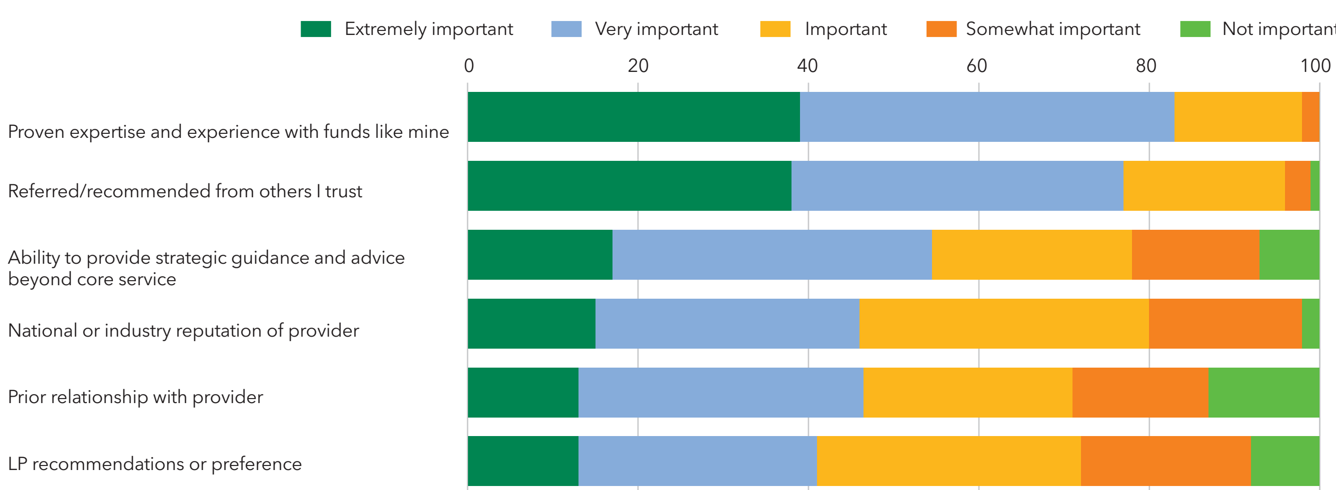
Size matters

As the biggest names in the industry swell their coffers and establish broad multi-asset-class platforms, the hunger and entrepreneurial zeal that a team starting out can bring to a portfolio is often appealing. So too is the focus on small- and mid-cap assets typical of new managers. "Emerging managers tend to operate at the smaller end of the private equity ecosystem and generally invest in small companies," says Reed. "Those funds often outperform larger vehicles. Generally, we will back two to three vintages, and then let them go when they become too big."

John McCormick, managing director at placement agent Monument Group, adds that the desire to re-deploy capital into the smaller deal market has driven appetite for emerging managers. "The big LPs now actively manage their portfolios, using the secondaries market to trim back exposure in some areas, freeing up capital to find interesting emerging managers – who themselves are often coming out of the bigger firms that have grown beyond the scope of the investor."

Claire Kendrick, head of alternative investments at Mill Creek Capital Advisors, describes her firm as looking for managers

How important are the following factors in choosing service providers? (%)



that can add a "different twist." A quarter of Mill Creek's commitments are made in first- and second-time funds, with an even split between the two. "The appeal is looking at niches that other people are not," as well as "unique expertise," she says.

Art versus science

Diligencing emerging managers is not always straightforward and has only been made more difficult by covid-19 restrictions. It is more challenging to collate the necessary information.

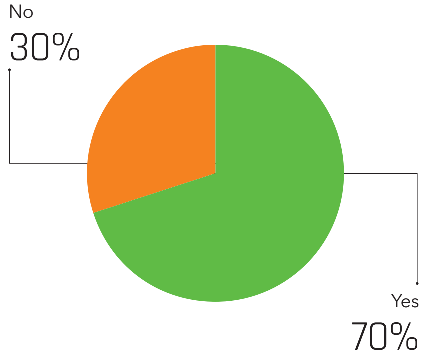
"It is definitely simpler if you are looking at a splinter group of what I call the 'marzipan layer,' that have decided they are doing all the work but senior partners are getting all the carry," says Reed.

"But in general, the level of due diligence and the due diligence process don't vary. It may just be that you need to be prepared to make a few more assumptions."

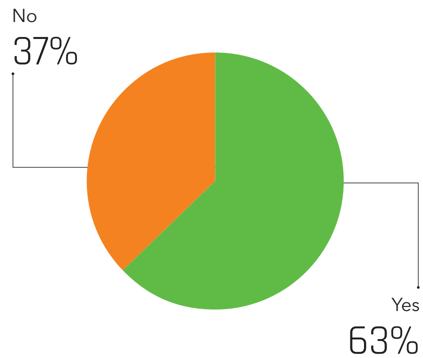
Reed's view is that due diligence with emerging managers is often more of an art than a science. "The work is sometimes more qualitative than quantitative."

Richard Spencer, head of funds and co-investments at Barings, adds: "Due diligence topics across established managers and emerging managers are very similar but each has a unique emphasis related to their respective risk profile. Consistently successful investors in the emerging manager space have typically developed a more thorough playbook to underwrite their GPs and co-investments, digging deeper in the areas that could make or break an investment thesis."

Buyout firms: Do you plan to hire any staffers over the next 12 months?



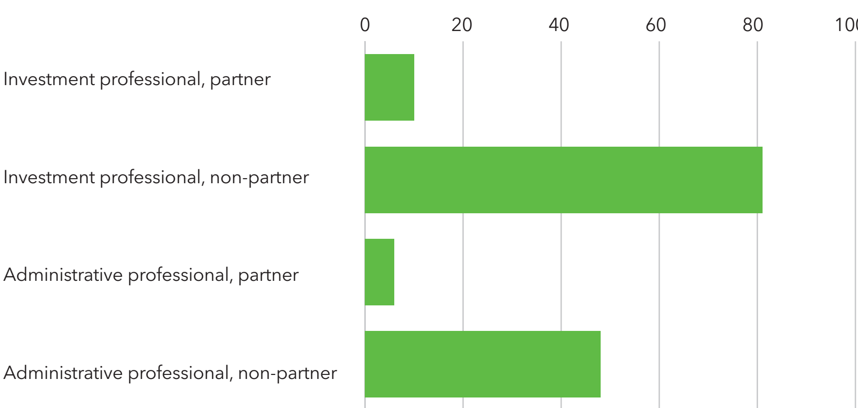
Venture capital firms: Do you plan to hire any staffers over the next 12 months?



Average number of staffers to be added for both buyouts and venture capital firms over the next 12 months

2

If you plan to add staff, at what level will they be hired? (Multiple answers allowed; %)



Source to all charts: Emerging Manager Survey, published by *Buyouts* in partnership with Gen II Fund Services

Terms of engagement

Terms on offer are also a consideration when selecting emerging managers, which may themselves be more amenable to offering attractive arrangements than more established firms.

More than half of emerging managers surveyed said they were prepared to offer co-investment rights, discounted carry and LPAC participation. However, appetite for providing a stake in the general partnership or management company is far lower at 24 percent. Only 15 percent of GPs said they offer opt-outs for LPs on certain investments.

Perhaps surprisingly, many LPs claim they prefer not to push too hard on terms – management fees in particular. "We always look for the best possible terms and look to leverage our position, coming in early, particularly around co-investment rights and preferential adjustments in the distribution waterfall," says Reed. "But we don't push back on management fees because we want the manager to be able to build the team."

Seventy percent of emerging buyout managers surveyed said they were looking to hire an average of two new professionals over the next 12 months, broadly in line with recruitment plans a year ago, despite the disruption caused by covid-19. Meanwhile, 63 percent of emerging venture managers plan to add to their team.

"We have not stopped building our team, even through the pandemic, adding three in the past six months, with an additional opening for an investment associate," says Bill Hannon, chief financial officer at technology investor Clearhaven Partners.

"Ultimately, investing in emerging managers is a long-term business, which needs significant upfront investment in order to get the firms off the ground," adds Spencer. "This upfront investment, which comes from both GPs and LPs, helps emerging managers ensure they have appropriately compensated talent and a robust infrastructure."

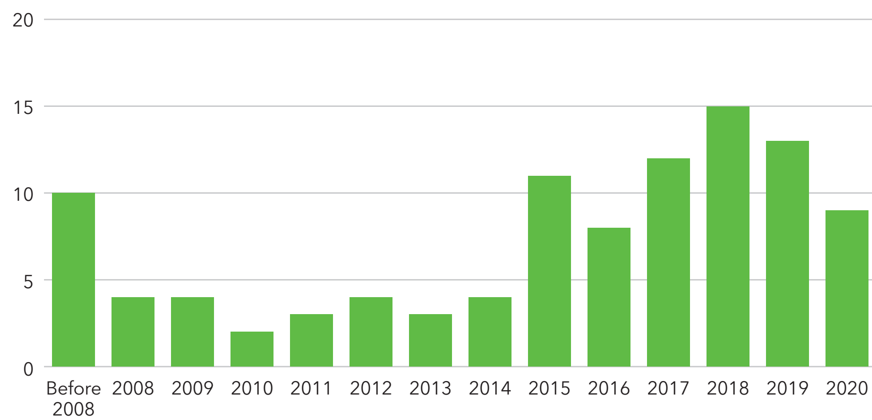
Methodology and respondent profile

Over 100 fund managers and more than 60 institutional investors contributed to the Buyouts Emerging Manager Survey 2020 produced with Gen II Fund Services

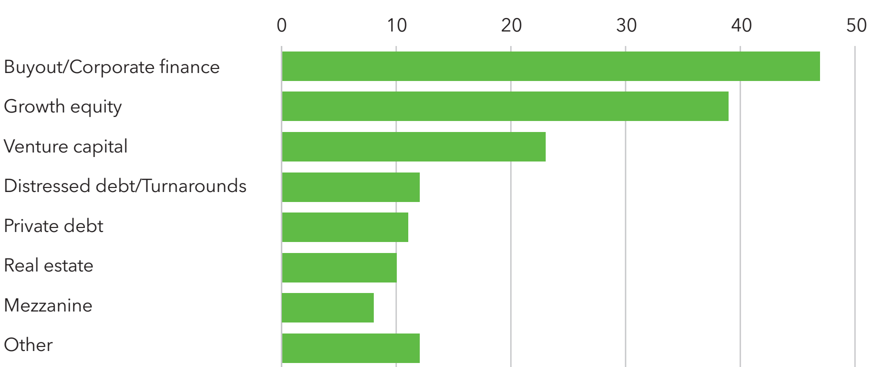
Field work for the survey was conducted between May 8 and June 12, 2020. A total of 105 managers, self-selected as "emerging managers," who indicated they are raising or have raised funds of $100 million or greater, are included. Managers raising funds less than $100 million were excluded to best represent managers focused on raising institutional capital. A total of 61 institutional investors with a self-identified appetite for emerging managers were surveyed. Incomplete surveys were reviewed for inclusion in the sample on a respondent-by-respondent basis.

Fund managers

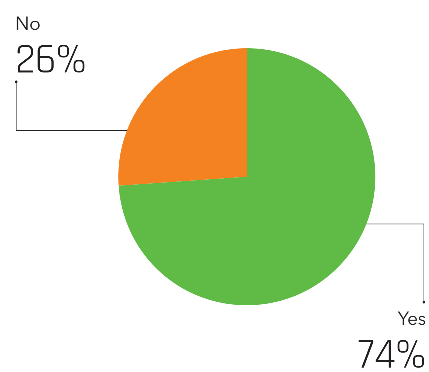
What year was your firm founded? (%)



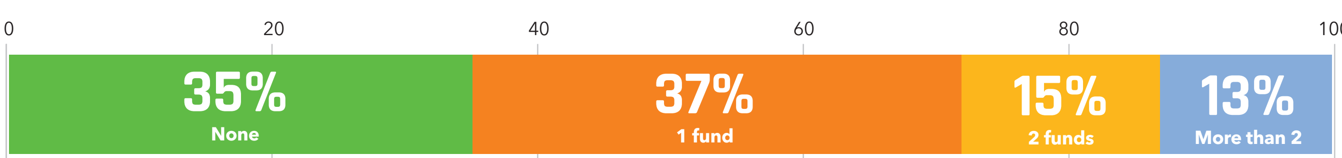
What kind of investment strategy does your firm pursue? (Multiple responses allowed; %)



Are you currently fundraising?



How many funds have you raised since your inception? (%)



Median total committed capital to all active funds:

$73m

Buyouts manager

$50m

Venture capital manager

Average number of active portfolio companies:

5

Buyouts manager

17

Venture capital manager

Average number of new platform investments respondents anticipate to make over the next year:

2

Buyouts manager

6

Venture capital manager

Average number of new add-on investments respondents anticipate to make over the next year:

3

Buyouts manager

5

Venture capital manager

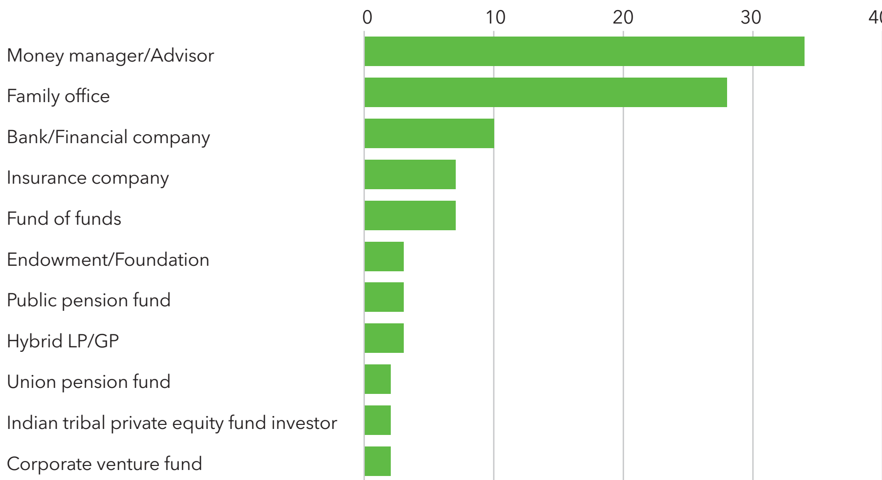
How many investment professionals work for your firm?

5

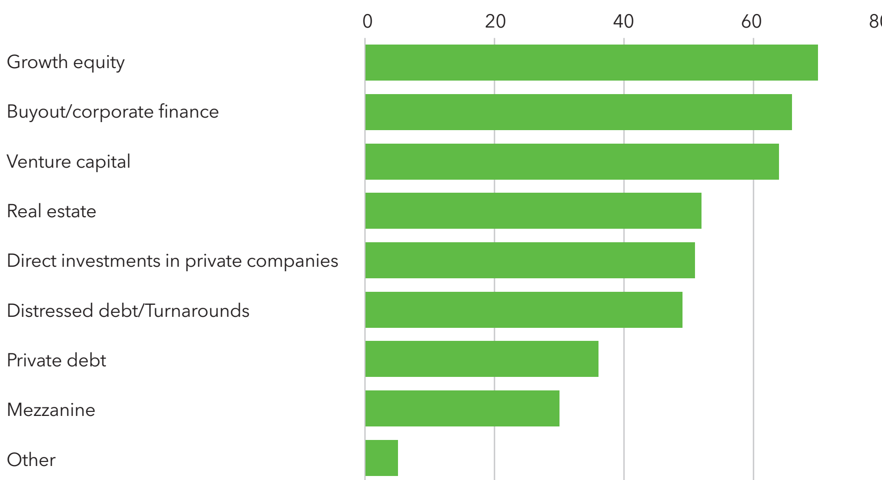
Average for all managers

Investors

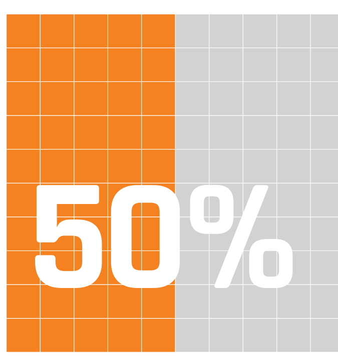
What kind of institution do you work for? (%)



What kind of alternative investment strategies do you invest in? (Multiple answers allowed; %)



What is your target allocation to PE/VC? (%)



What is the value of your overall PE/VC portfolio? ($m)

200
Small investors

8,089
Large investors

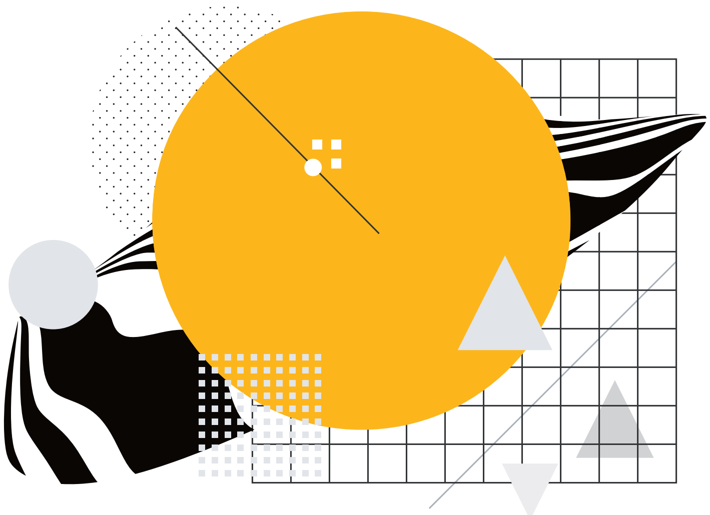
How much capital do you commit to PE/VC funds of all types per year on average? ($m)

27
Small investors

1,102
Large investors

Small investors: Those that commit less than $100m/year to PE/VC
Large investors: Those that commit $100m/year or more to PE/VC

Source to all charts: Emerging Manager Survey, published by *Buyouts* in partnership with Gen II Fund Services



What fundraising is really like for emerging managers

Getting a new fund over the line has never been easy. But covid-19 has made everything that little bit more difficult

Fundraising for emerging managers is often a protracted affair. Those managers surveyed that had recently closed a fund met with an average of 97 investors in order to do so, at an average of six meetings per commitment, resulting in an average of 33 LPs.

The onset of the coronavirus has, of course, made fundraising that much more challenging and it is emerging managers that are feeling the worst effects.

"We invested in a brand new healthcare manager two years ago. I spent an extraordinary amount of time with that team before we committed," says Claire Kendrick, head of alternative investments at Mill Creek Capital Advisors. "They probably visited me in Pittsburgh five times. I went to their offices. A lot more work goes into investing in emerging managers, and covid has made the process even harder."

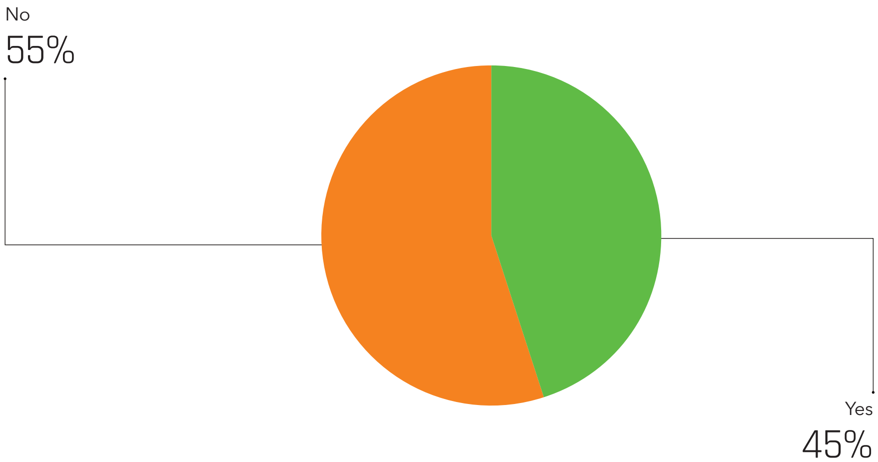
> *"A lot more work goes into investing in emerging managers and covid has made the process even harder"*
>
> **CLAIRE KENDRICK**
> **Mill Creek Capital Advisors**

Indeed, over half of emerging managers that are currently on the fundraising trail plan to extend their fundraising period. A further 8 percent have either paused fundraising indefinitely or else abandoned their efforts altogether.

Lasting appeal

That is not to say that appetite for emerging managers has evaporated. Investors continue to seek alpha in new and undiscovered teams. As the industry

Are you using a placement agent? (% of respondents)



Average target fund size

$349m
Buyout/Corporate finance

$186m
Venture capital

What is the average size of your most recently closed fund?

$359m
Buyout/Corporate finance

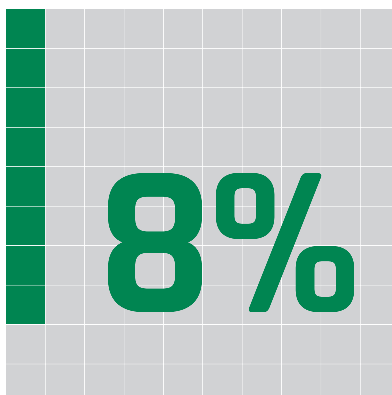
$168m
Venture capital

How many months did it take to reach...

... a first close?
6

... a final close?
13

Percentage of GPs that plan to pause fundraising or abandon it altogether



has matured and expanded, the caliber of emerging managers has soared. "As we come out of a 10-year bull run, a lot of managers have inevitably gotten larger. Talented people within those teams have grown frustrated and decided to strike out on their own," says Scott Reed, co-head of US private equity at Aberdeen Standard Investments.

"When new firms are coming out of well-known partnerships, that gives you confidence. The risks associated with investing in emerging managers have declined substantially."

Kendrick adds that while around 20 percent of the emerging managers that Mill Creek has backed have "blown up," this figure is not dramatically below that for established managers. "On the other hand, when emerging managers outperform, they really outperform. I would say nearly 50 percent have done better than we expected," says Kendrick.

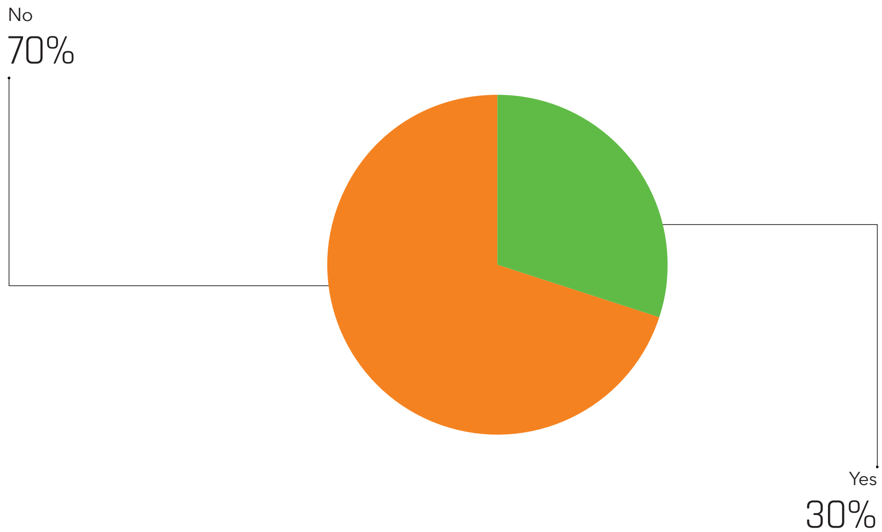
Support teams

Despite pronounced interest in the emerging manager sector, selecting the right third-party providers is critical for firms raising first and second-time funds. Almost half – 45 percent – of those surveyed that are currently fundraising are using a placement agent, up from 30 percent for those that have already closed.

Meanwhile, placement, legal and fund admin services were all put in place an average of six months before first close.

> *"When new firms are coming out of well-known partnerships, that gives you confidence"*
>
> **SCOTT REED**
> **Aberdeen Standard Investments**

Did you use a placement agent for your previous fund?



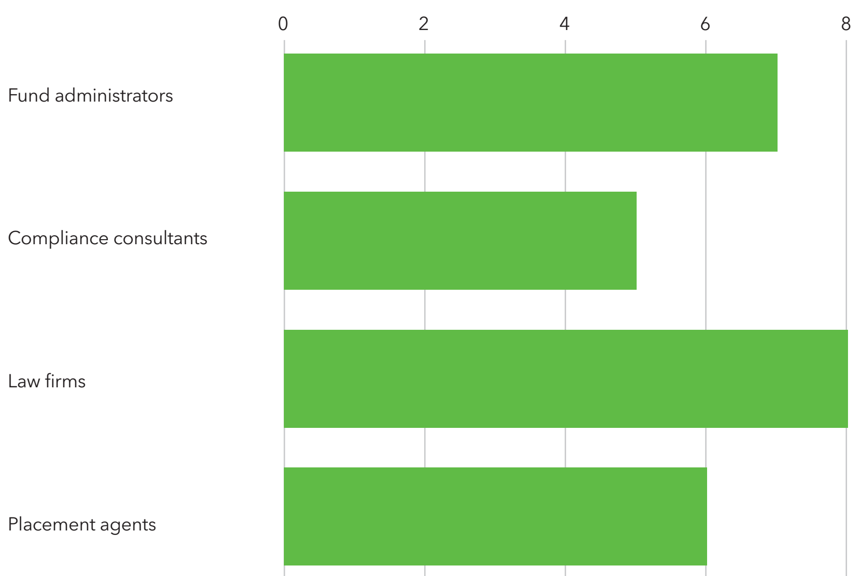
> *There should be more consultants that help with storytelling and connections, but the funds are too small for true placement businesses"*
>
> **LINDEL EAKMAN**
> **Foundry Group**

97
Average number of prospective investors met by managers that had recently closed a fund

6
Average number of meetings (including conference calls) with investors who ultimately committed

33
Average number of limited partners

On average, how many months in advance of the first closing did you engage with (or do you anticipate engaging with) the following professional services firms?



Source to all charts: Emerging Manager Survey, published by *Buyouts* in partnership with Gen II Fund Services

"While we are a new manager, since day one, we have been focused on building an institutional quality platform for the long term," says Bill Hannon, chief financial officer at technology investor Clearhaven Partners.

"That includes partnering with outside vendors who will be a good partner in our early years – and grow with us over time."

When selecting third-party service providers, relevant experience, understandably, ranges from very important to extremely important for 83 percent of managers.

John McCormick, managing director at placement agent Monument Group, adds that it is vital for an emerging manager to ensure they select someone that is going to stick by them throughout the vagaries of a first-time fundraise. "They do as many references on us as we do on them, and that is important," he says.

Lindel Eakman at the Foundry Group, however, believes that the placement industry inadequately serves the small emerging manager segment. "There are no good placement agents at this end of the market," he says. "I think there should be more consultants that help with storytelling and connections, but the funds are too small for true placement businesses. Fund admin, on the other hand, is pretty easy, with a few large players that are well proven." ■

Q&A

Investors are getting more comfortable with emerging managers, says MiddleGround Capital co-founding partner Lauren Mulholland

Q Nearly half of capital sourced by emerging managers we surveyed was said to have come from family offices and wealthy investors, up from about 25 percent in our 2019 survey. What is drawing these investors to new managers?

Many family offices have experienced significant growth and are looking at private equity investments to seek outsized returns in their portfolios. Some have invested in staff members with private equity backgrounds to evaluate these investments. As their allocation to private equity has grown, so has their interest in emerging managers. In addition, we have seen that many family offices are run by entrepreneurs who identify with the entrepreneurial spirit of emerging managers.

Q More than 70 percent of managers reported receiving at least some pressure regarding fees. Are new managers going to need to reset their fee expectations in 2020?

There is a continuous dialogue between LPs and GPs with respect to fees in asset management. For an emerging manager, there are a couple of considerations. First, there is a level of fixed costs that go into running a private equity firm. Depending on the size of the inaugural fund raised, incremental fees may help an emerging manager make a strategic hire to better position them for growth or enable them to invest in a capability that will help to generate returns. Second, many emerging managers are "active" investors, bringing specific capabilities to their portfolio companies. This level of value-add helps to support the need for the services for which some fees are charged.

"As the private equity asset class has matured, emerging managers within the asset class have improved in quality"

Q Almost nine of 10 investors surveyed this year said they will back a debut PE/VC fund compared with 75 percent of respondents last year. What is driving this uptick in support for new managers?

As the private equity asset class has matured, emerging managers within the asset class have improved in quality. Many individuals have been at their respective firms for a long period of time and have demonstrated their ability to generate strong returns in those settings. However, with limited positions at the top, it drives talented investors to start their own firm. Additionally, the infrastructure around back office support has grown, enabling emerging managers to outsource some of those functions as they focus on completing transactions and hiring the team. These types of industry changes have lowered the perceived risk of the emerging manager asset class, driving more support toward it.

Q Despite the increase in investors that would back debut funds, willingness to make anchor commitments declined by 20 percent year on year. How can emerging managers help LPs get more comfortable with making anchor investments?

Emerging managers can help LPs get more comfortable making anchor investments by de-risking their investment. There are a few ways to approach this. First, demonstrate the pipeline is full with actionable opportunities to deploy capital. Second, offer a near-term investment in a live deal that aligns with the firm's investment strategy. Third, have the back office infrastructure in place to support the business. And fourth, build out the team. By making these investments early on, LPs will see the conviction you have in your own strategy, helping to provide them with more comfort. ■

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Year Founded

2009

Key Personnel

Norman Leben
Managing Principal

Steven Millner
Managing Principal

Steven Alecia
Chief Client Officer

Jeff Gendel
Principal – Business Development
Jgendel@gen2fund.com

Description of Services

Gen II is one of the largest independent private equity fund administrators, administering over $350 billion of private capital on behalf of its clients with offices in New York, San Francisco, Boston, Stamford, Dallas, and Luxembourg. Gen II offers private fund sponsors a best-in-class combination of people, process, and technology, enabling fund sponsors to effectively manage their operational infrastructure, financial reporting, and investor communications. The Gen II team is the most experienced and longest tenured team in the private equity fund administration industry, with broad expertise across buyout, funds of funds, real estate, energy, infrastructure, credit, co-investment, hybrid funds, feeder funds, venture capital, retail, and managed accounts. Over the past four years, Gen II is the #1 fund administrator for emerging managers.*

*Source: Preqin

GenII

20+YRS

Fund Administration Experience

$350B+

Private Fund Capital

4,000+

Fund Entities

25,000+

Investors for Our Clients

99%

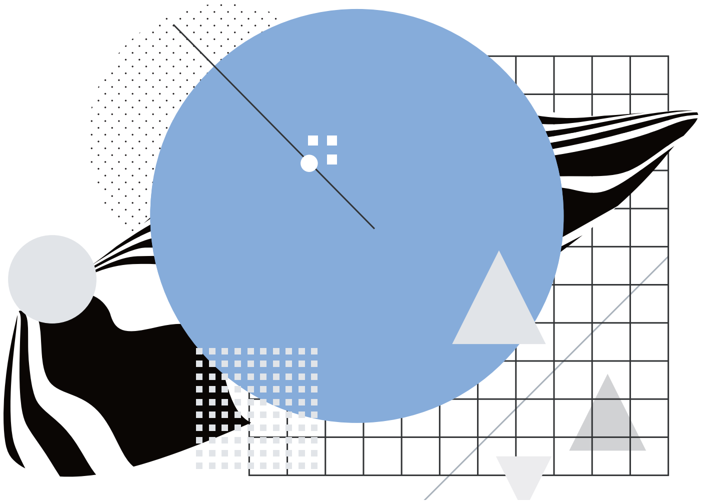
Client Retention

Gen II is the 3rd largest private equity fund administrator in the U.S.

Source: CONVERGENCE

More emerging managers choose Gen II than any other administrator.

Source: preqin



What LPs want

What investors are looking for and what emerging managers are prepared to offer are not always the same thing

Unsurprisingly, track record, team composition and strategy are deemed the most critical attributes for investors assessing an emerging manager opportunity. GPs also recognize that these are the most important elements of their pitch to get right.

However, GPs may be underestimating the importance of the back-office functions for limited partners. Over half – 53 percent – of investors surveyed said they considered operations and compliance to be either very or extremely important in their due diligence. Meanwhile, just 23 percent of emerging managers believe operations and compliance really matter.

"First-time fund risk is all about the ability to manage third-party capital successfully," says John McCormick, managing director at placement agent Monument Group. "Firms need to have the right practices and procedures and they need to have a well-built back office. Great investors are not necessarily great managers of funds."

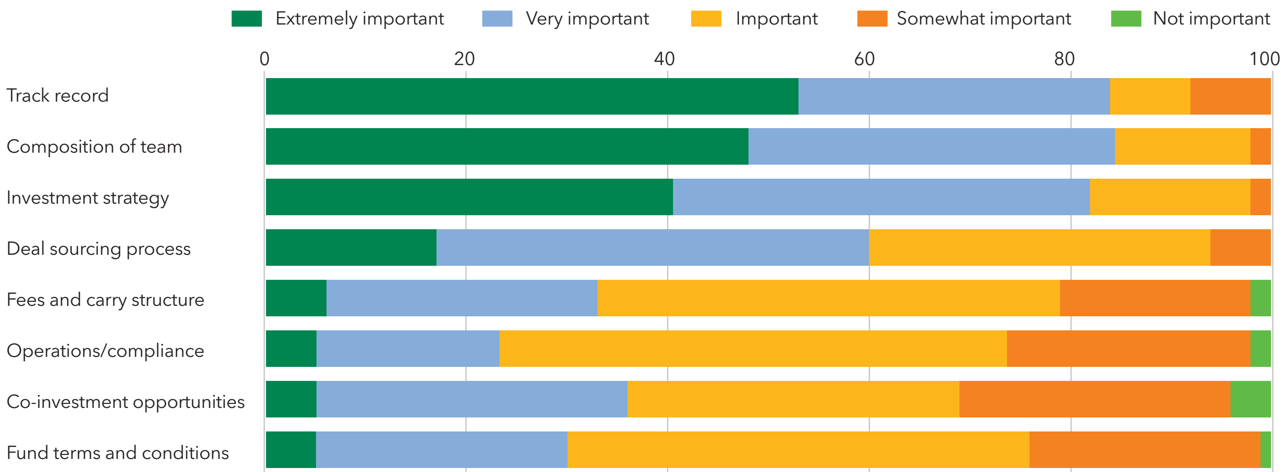
> *"Firms need to have the right practices and procedures and they need to have a well-built back office. Great investors are not necessarily great managers of funds"*
>
> **JOHN MCCORMICK**
> **Monument Group**

Claire Kendrick, head of alternative investments at Mill Creek Capital Advisors, adds: "The biggest concern that we have with first – and even second – time managers is making sure that they have either hired a back-office team, have a shared back office or have outsourced the back office. Even if there are only three people in a team, we want one of those people to be a CFO, who may work on deals but is also overseeing the admin side of things. We are a real stickler for that. My personal preference would be for outsourcing."

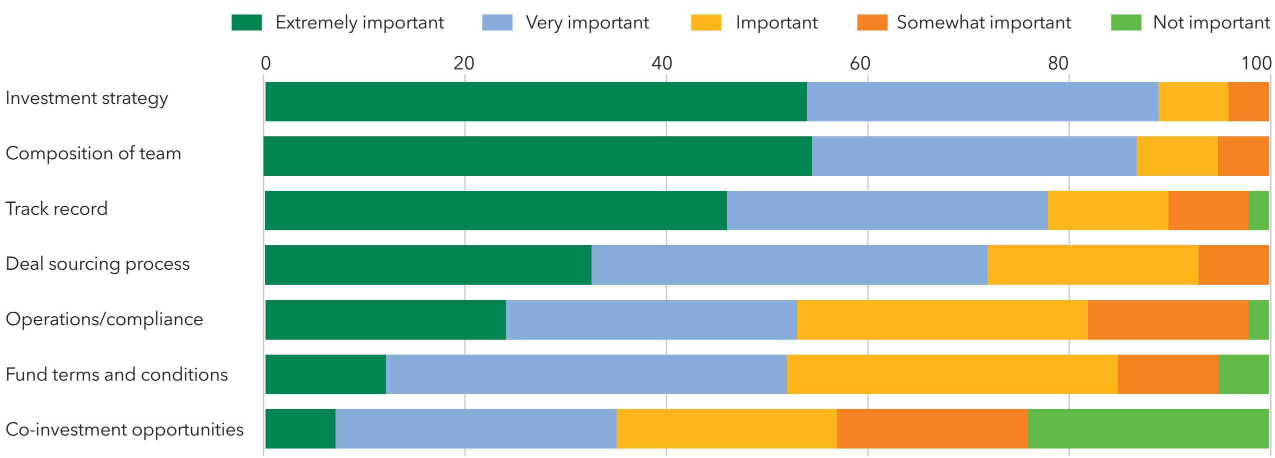
There is also a mismatch in perceptions around terms and conditions. Only 30 percent of GPs recognize that terms and conditions are of high importance to

Important factors

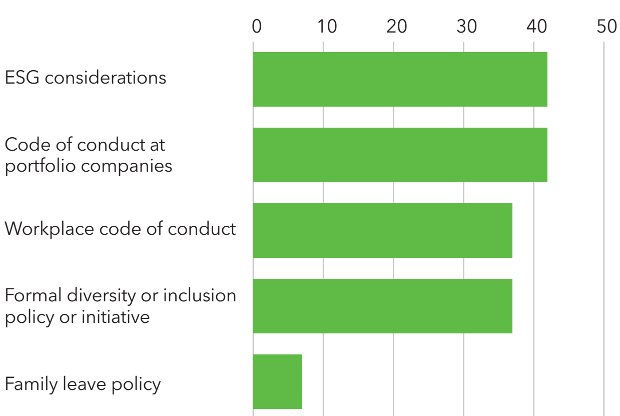
As a GP, how important do you believe the following factors are for LPs evaluating your fund? (%)



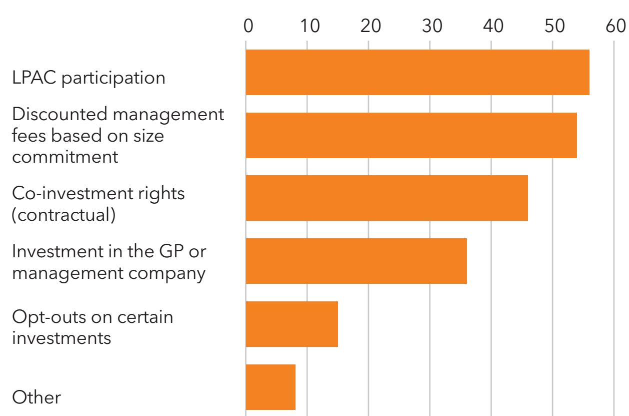
As an LP, how important are the following factors when evaluating an emerging manager fund? (%)



Do you look for any of the following in an emerging manager? (Mulitple answers allowed; %)



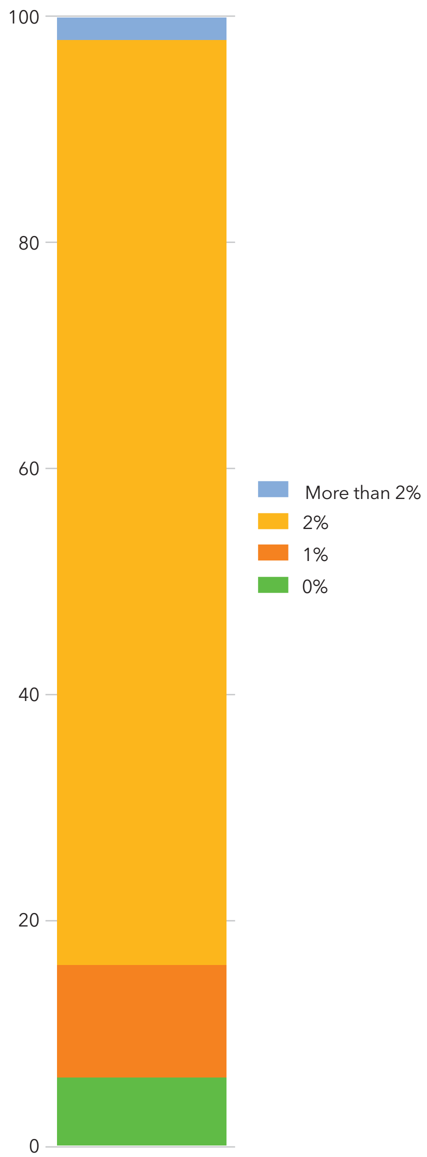
What kind of terms do you try to negotiate with emerging managers? (Multiple answers allowed; %)



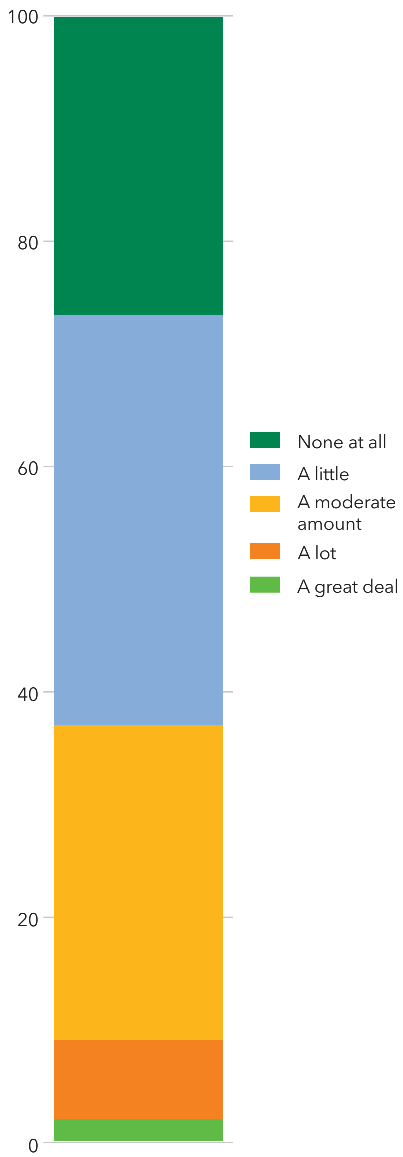
Source for all charts: Emerging Manager Survey, published by *Buyouts* in partnership with Gen II Fund Services

Fees

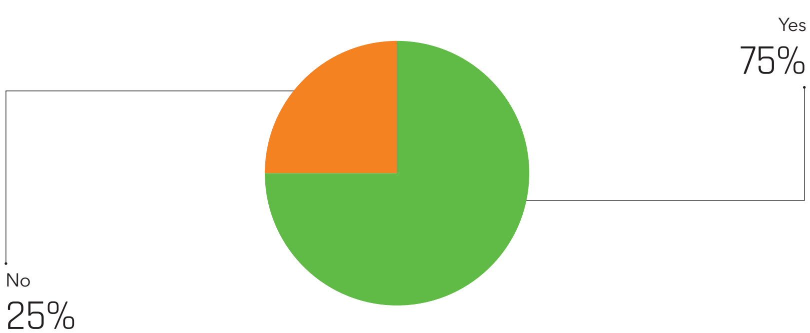
What management fee have you asked for in your fund? (%)



Do you receive pressure from investors regarding fees? (%)



As an investor, do you believe that LPs are pushing harder with GPs in negotiating fees?



Engagement

Average number of emerging managers you meet with per year

44

Average number of emerging manager funds you anticipate backing over the next year

3

their investors, compared with 51 percent of LPs themselves.

"In addition to a strong investment track record, areas of focus for an emerging manager include alignment – net worth in the firm and carry distribution – as well as team dynamics and a history of working together; operating versus fiduciary experience; strategy differentiation; pipeline; fundraising expectations; and back-office infrastructure," says Richard Spencer, head of funds and co-investments at Barings.

Differences of opinion

Inevitably, there is some discrepancy between the provisions that investors are keen to negotiate and those that GPs are prepared to offer. Forty-two percent of investors try to negotiate a stake in the general partnership or management company, whereas only 24 percent of GPs are open to those discussions.

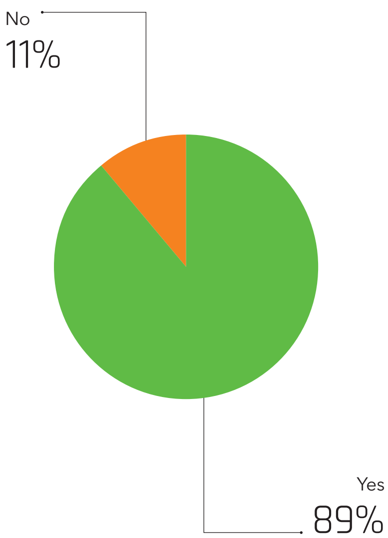
"These things are all just mechanisms by which the LP can get comfortable with the GP – it is about establishing trust," says McCormick.

Spencer adds: "Although some investors look for preferential terms in emerging managers, most investors are interested in being fair long-term partners."

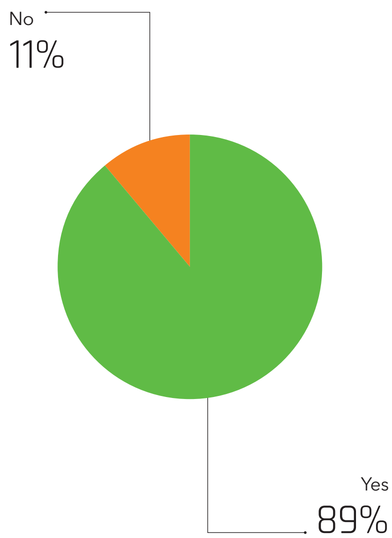
And while 75 percent of investors believe LPs are pushing harder in negotiating fees, the majority are cognizant of not pushing too far. Indeed, over 60 percent of emerging managers

Emerging manager appetite

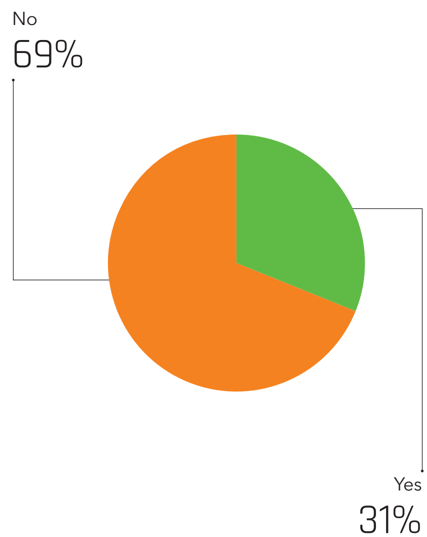
Will you back a manager raising its first fund?



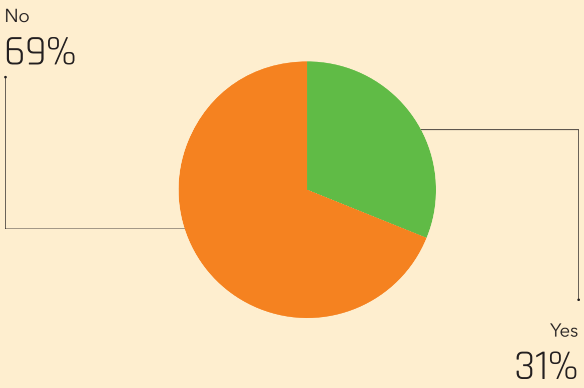
Will you back a manager raising its second fund?



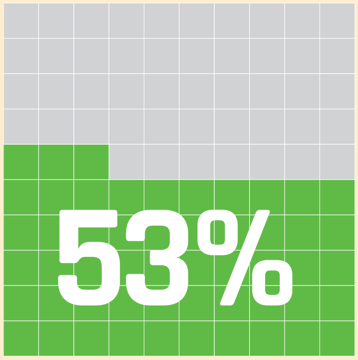
Do you have a formal emerging managers program in place?



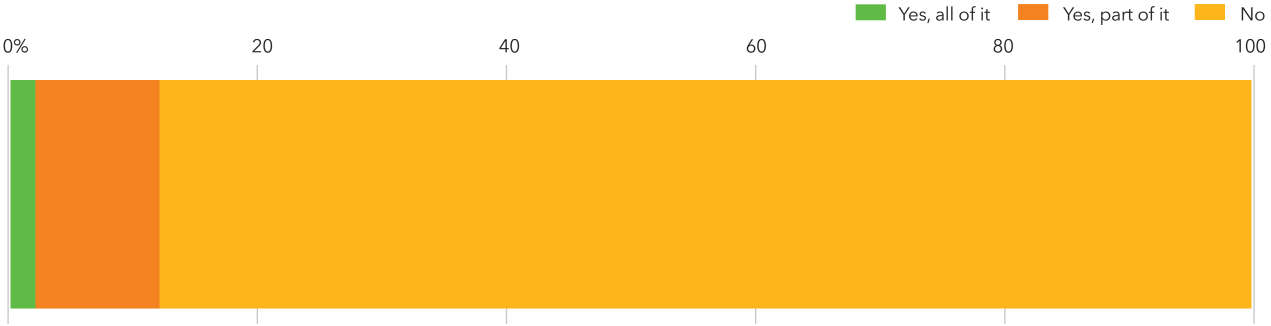
Do you have a formal allocation to PE/VC emerging managers?



If yes, what is the allocation target as a percentage of your total PE/VC portfolio?



Do you outsource at least a portion of your emerging manager program to a third-party advisor? (%)



claim they had received very little pressure on fees or no pressure at all.

"We are not greedy when it comes to fees," says Kendrick. "We are aware that emerging managers typically have little to fall back on, so we are keen not to starve them of cash. They usually have such small teams to begin with and it is important that they have the resources to grow them. We want them to have the working capital to be able to do that."

Kendrick adds that it isn't always necessary to push for formal preferential terms in order to exert influence. "In some ways, I think we tend to end up with a unique relationship precisely because we haven't asked for special terms," she says. "Our emerging managers talk to me a great deal more than our more established managers. We seem to have influence without really asking for it."

One area where LPs and GPs seem to align is on LP advisory committees, with 53 percent of LPs saying they look for LPAC participation and 56 percent of managers saying they're willing to put it on the table.

Interestingly, although the vast majority – 89 percent – of LPs surveyed are prepared to back first- or second-time funds, only 31 percent have formal emerging manager programs. Investors meet with an average of 44 managers per year and conduct an average of nine meetings prior to making a commitment. Increasingly, some investors are also seeking to co-invest in individual deals prior to participating in a fund. "That can be a great way to get to know a manager," says McCormick.

And despite the disruptive influence of covid-19, investors plan to make an average of three commitments to emerging managers next year – down only slightly from four commitments 12 months earlier. However, only 55 percent of investors would be prepared to anchor a first- or second-time fund, down from 76 percent last year.

The advantage of making a cornerstone commitment, of course, is that it is possible to negotiate preferential documentation. Indeed, 44 percent of managers that did have an anchor say they had provided favorable economic terms.

Of course, LPs prepared to take a risk on cornerstoning a new fund tend to have higher expectations of the reward they are due than the managers of the vehicle themselves. Over 60 percent of investors say they would demand discounted man-

Commitments

Average typical commitment size made to an emerging manager fund

$8m
Small investors

$38m
Large investors

Average number of months it typically takes from first introduction to a signed commitment

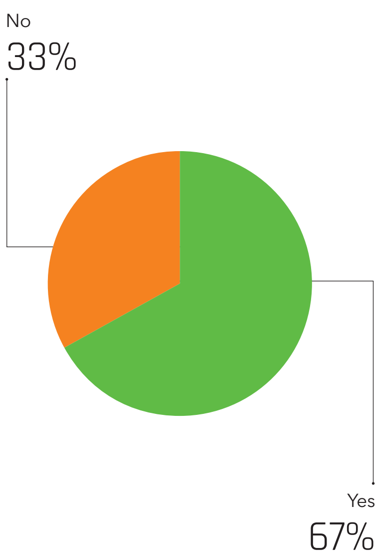
11
Small investors

16
Large investors

Small investors: Those that commit less than $100m/year to PE/VC
Large investors: Those that commit $100m/year or more to PE/VC

Co-investments

Do you make co-investments with emerging managers?

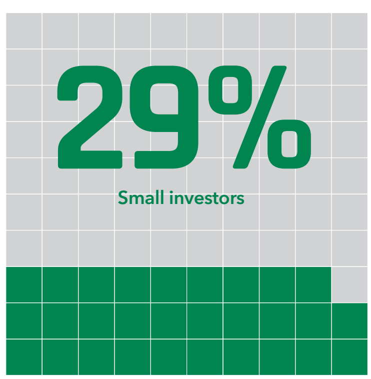


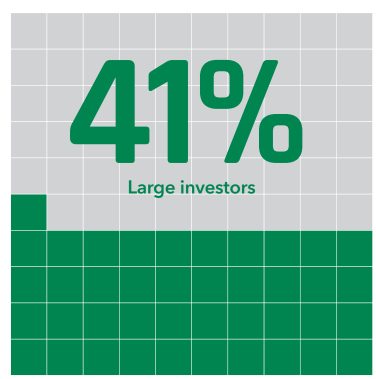
If yes, how many co-investments do you anticipate making alongside emerging manager funds over the next year?

3 Small investors

4 Large investors

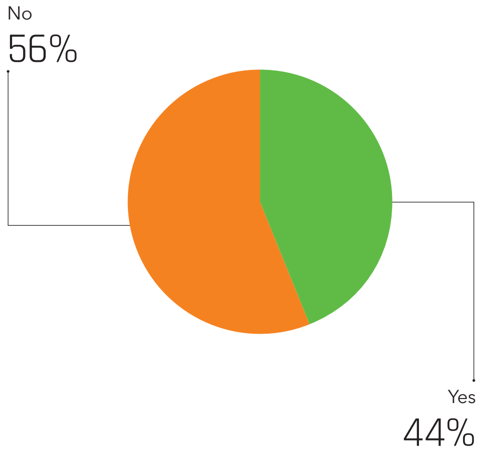
What is your target allocation as a percentage of your total PE/VC portfolio regarding co-investment opportunities?



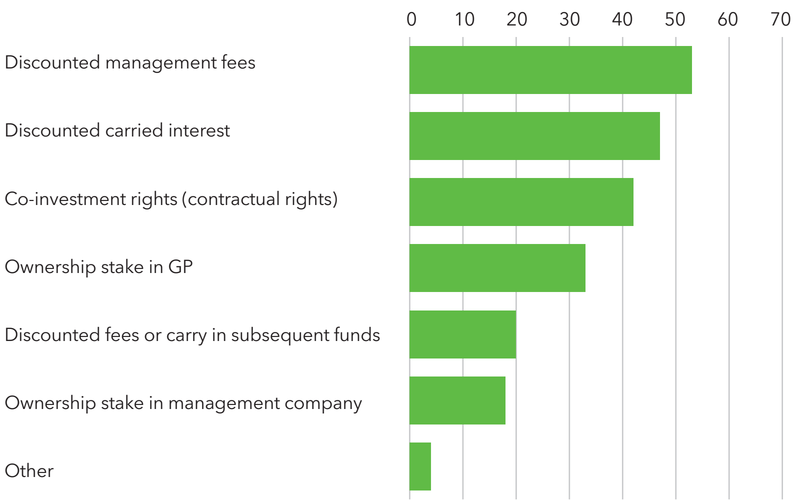


Anchor investment

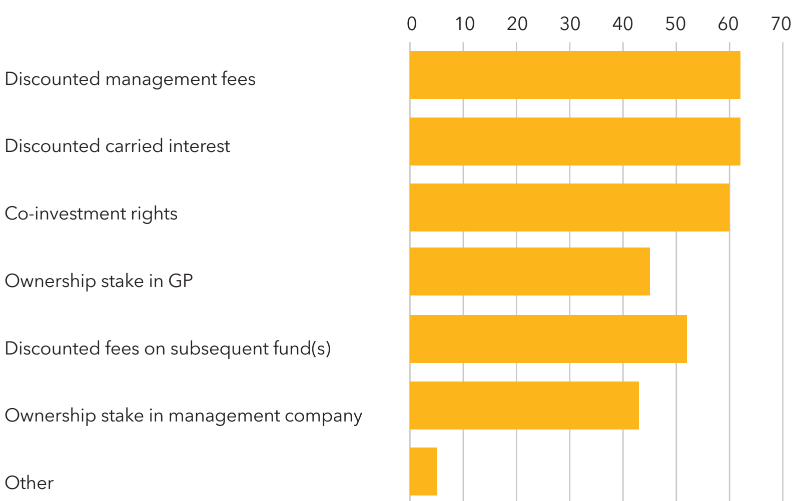
Did you have an anchor investor with more favorable economic terms?



If so, what terms did the anchor investor receive? (Multiple answers accepted; %)



If you were to make an anchor commitment, what special terms would you seek? (Multiple answers allowed; %)



agement fees and discounted carry, compared with 53 percent and 47 percent of GPs respectively that would contemplate granting such requests.

There is also a significant gulf between the two parties when it comes to contractual co-investment rights – 60 percent of investors would seek these special terms while only 42 percent of GPs would cede them. Equally, while 45 percent of investors would attempt to obtain a stake in the general partnership, only 33 percent of managers would offer one.

Finally, there is a difference of opinion when it comes to how long these preferential terms should last. More than half of investors – 52 percent – say they would seek discounted fees or carry in subsequent funds (20 percent of GPs thought such demands were acceptable).

It is important that emerging managers narrow this gap in expectations if they are to get their fledgling offerings away. The segment is notoriously competitive and the months ahead are likely to be particularly tough.

"LPs' time and attention are in high demand when you are competing against the thousands of GP products in the market at any one time," says Spencer. "LPs have numerous alternative options, an existing portfolio, established GP relationships and a natural bias to the known.

"Established managers, assuming reasonable performance, have the advantage of an existing LP base, a concrete track record of activity as a team and a history of having raised capital with the lessons learned and resources to facilitate the next fundraising cycle. None of this indicates first- or second-time funds cannot be successful in fundraising, but the criteria for success is much more stringent – a combination of alignment, attribution, team dynamics, prior LP exposure to the partners of the new GP, strategy differentiation, anchor investor and pipeline have to resonate.

"Furthermore, in our experience, many emerging managers also face liquidity risk given firms need to have two to three years of operating cash available to endure a prolonged fundraising environment."

Spinouts may win out in a post-covid market

New managers with senior GPs and strategies spun out of brand-name firms may have an edge even in a pandemic-battered market, write Chris Witkowsky and Kirk Falconer

While the covid-19 pandemic created more fundraising challenges for emerging managers, it has done little to stem the tide of first-time offerings.

Private equity fundraising has slowed across the board since the pandemic's outbreak and is unlikely to reach the record levels of the past couple of years. Emerging managers are expected to absorb the biggest blow, as many limited partners have narrowed their focus to incumbents.

Buyouts has recently reported several fund closings and launches by newly minted PE firms, indicating the downturn did not completely halt this activity.

Some general partners are persevering with inaugural vehicles launched before the crisis, while others started up only recently. In both scenarios, there is evidence of successful fundraising.

This is perhaps not surprising in the case of pre-crisis funds, which may have developed early traction with LPs. It is more surprising in the case of first-timers who began marketing, or ramped up marketing, after the outbreak. For example, Knox Lane in June collected nearly half of the $500 million target set for its debut fund less than three months after filing Form D fundraising documents.

It helps to be a spinout

A quality common to many of these PE firms is seasoned leadership. Knox Lane was founded by John Bailey and Shamik Patel, both former TPG Growth partners. At TPG, Bailey led consumer sector investing, while Patel led services sector investing, experience they are now leveraging in Knox Lane's niche mid-market strategy.

> *"To raise capital in this environment, you have to prove your differentiation"*
>
> **MARK HOEING**
> **Commonfund Capital**

Similarly, Long Arc Capital, which recently rolled out a $500 million debut growth-oriented offering, was launched by an ex-Goldman Sachs principal, while Twist Capital, which unveiled a $500 million inaugural tech dislocation pool, was formed by an ex-Blackstone executive.

This suggests emerging managers featuring senior investment professionals and strategies spun out of big, brand-name PE firms could have a fundraising edge.

Nik Shah, managing partner of Cohere Capital, says this factor was key to the May close of his firm's $200 million Fund I. Cohere gained pre-downturn "momentum," he says, because the viability of its low mid-market, tech-enabled services strategy was proven by him and principal Daniel Gedney while at HIG Capital.

LPs also developed a "level of comfort" about Cohere, Shah says, owing to his and Gedney's history of working together. This, he says, demonstrated the team's "cohesive ability to execute."

Veteran GPs like Cohere's sometimes leave PE firms once they have built a track record and feel a firm's strategy has grown outside their comfort zone, says Mark Hoeing, a managing director and head of private equity at Commonfund Capital. Often, as firms expand, the size of companies they acquire also expands, moving the focus out of the lower mid-market or even mid-market and into larger opportunity sets.

Because of their extensive backgrounds, the inaugural offerings of these GPs are appealing to LPs, even in a pandemic-battered market. "To raise capital in this environment, you have to prove your differentiation," Hoeing says. "That means having operational and investing experience in particular sectors that are more resilient, including tech, software, services and healthcare."

Spinouts without LP ties

However appealing emerging managers with seasoned leadership are, their debut vehicles could still be beset with challenges in today's fundraising market. Challenges are also expected to multiply if the downturn is prolonged.

Veteran GPs who launched funds after the pandemic's outbreak may believe they can be successful "whatever the constraints," says Kelly DePonte, a managing director with Probitas Partners. This perhaps owes to an "awful lot of confidence" on the part of GPs with long records of achievement and who might have been planning spinouts for some time.

Attractive reputations, however, are not enough at a time when LPs are distracted by portfolio issues and feeling uncertain about the future, says DePonte. While LPs are still looking to deploy capital, many are not willing to vet unknown PE firms using virtual means such as video conferencing apps like Zoom.

For this reason, DePonte says, the best-positioned emerging managers will be those with pre-existing LP relationships.

If they lack LP ties, the focus of GPs with inaugural offerings will be on "catching the attention of LPs" who are open to new strategies, DePonte says. In this case, the goal is to "get yourself in the queue now" and secure initial pitches in anticipation of "normal" face-to-face meetings with LPs when the market recovers. ■

Timing a spinout

There's always good talent leaving and forming new PE firms

The downturn represents a great opportunity for emerging managers to show their talent, as good companies, large and small and across sectors, need capital to help them operate through the turmoil, says Mina Pacheco Nazemi, a managing director with Barings Alternative Investments: "I think there's more to do now than ever."

Not all veteran GPs mulling a spinout from a large PE brand will agree that now is the right time. Some may decide to hold off until deal and fundraising markets further stabilize. Deal activity, for example, is not expected to return to anywhere near pre-covid-19 levels until at least the fourth quarter, sources tell *Buyouts*.

"Any number of managers that might be contemplating a spinout today might be a little more reticent to do so until they know which way markets are trending and they have more visibility around what LP appetite is for emerging managers," says Brian Rodde, a managing partner and co-head of private equity at Makena Capital.

Those who do take the plunge, Rodde says, are likely to have a "relatively clear path to a successful fundraising if they have reasonable fund-size expectations and reasonable terms." Less known or more marginal first timers will face greater challenges.

Other factors, such as how economics flow through an organization, will often motivate senior investment professionals to leave comfortable roles for the uncertainty of launching their own ventures, Nazemi says.

"It's always a complex discussion about economics," she says. "That's why, when backing an emerging manager or an established manager, we spend so much time on what is the economic make-up of the firm: how is [carried interest] distributed, how do people get promoted, how do people get on the investment committee?"

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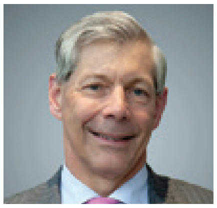
KEY TEAM MEMBERS



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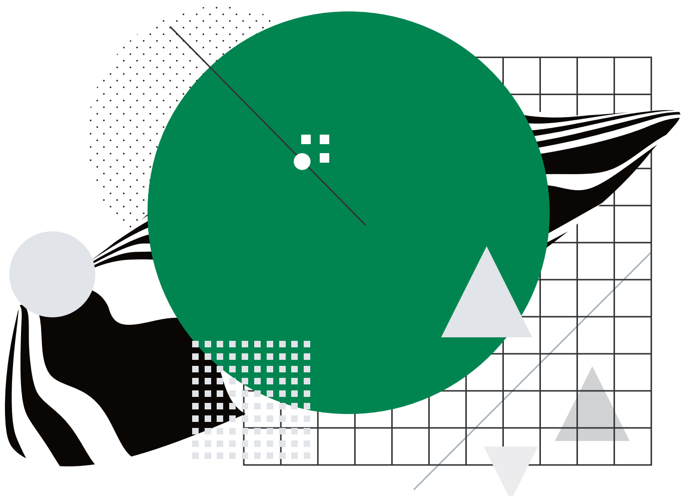


Covid-19 hits emerging managers hardest

Virtual fundraising not fit-for-purpose when it comes to new firms, say investors

The economic ramifications of covid-19 are unlikely to dampen LP appetite for private equity significantly. Industry outperformance over the past decade has been striking. Investors have also learnt their lessons about vintage-year diversification, while those that did back away from the asset class in the aftermath of the financial crisis are still kicking themselves for missing out on the buying opportunity of a generation.

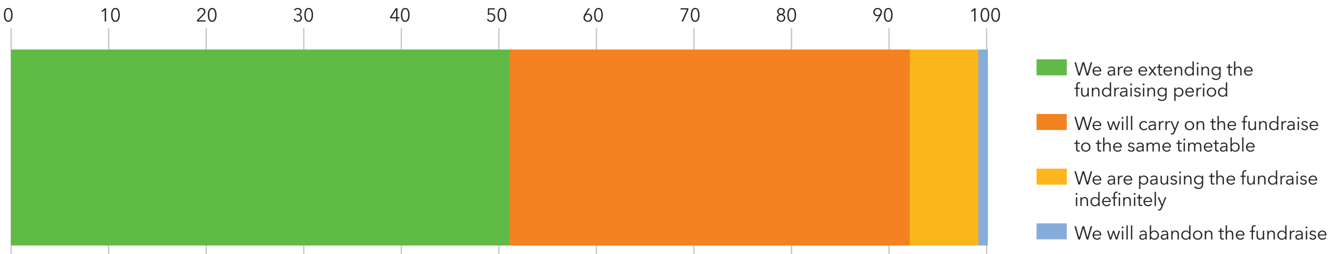
Nonetheless, the shock waves covid-19 has sent through the financial markets mean many investors have been forced to prioritize firefighting. "Investors have had to retrench into their portfolios, limiting the capital available for new commitments," says John McCormick, managing director at placement agent Monument Group.

> *"Covid-19 hasn't changed our appetite for emerging managers, but it will make the due diligence more complicated"*
>
> **JANUSZ HEATH**
> **Capital Dynamics**

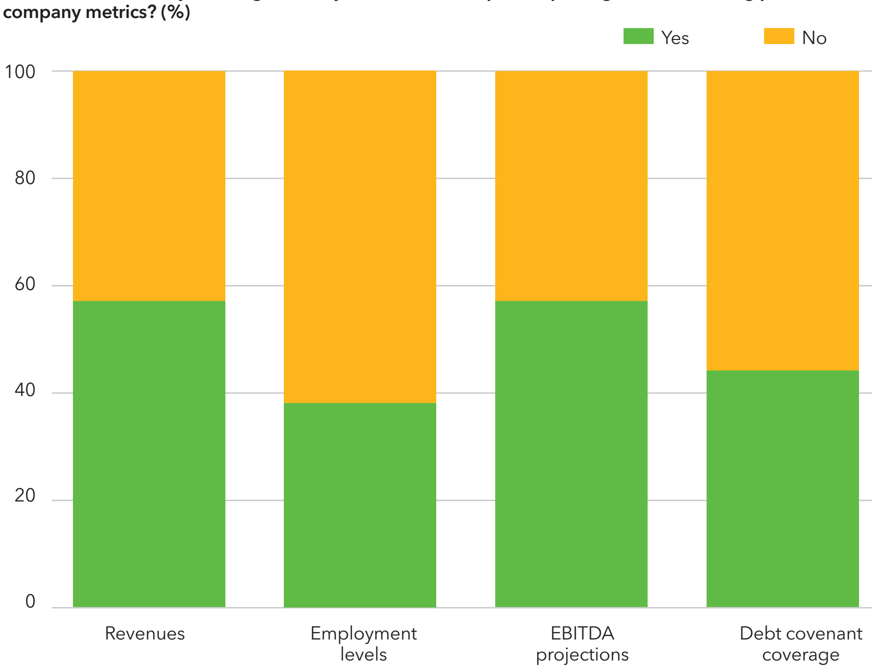
Meanwhile, should surprisingly buoyant global stock markets take a fresh tumble, the denominator effect will intensify. It is possible, therefore, that LPs will choose to preserve longstanding relationships rather than embark on new ones. Indeed, an overwhelming 89 percent of emerging managers surveyed expect the pandemic to make fundraising at least moderately more difficult in the months ahead.

The survey also suggests, however, that despite these short-term challenges, underlying appetite for emerging

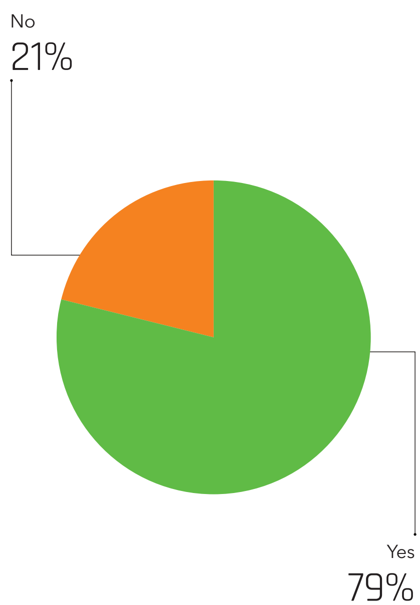
If you are currently fundraising, please explain the likely impact of covid-19 (%)



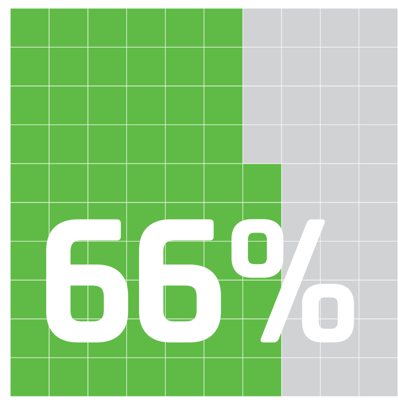
Due to covid-19, are you being asked by LPs for more frequent reporting on the following portfolio company metrics? (%)



Do you plan to invest in or have investments in portfolio companies that are in industries deemed "essential"?



What percentage of your investments are in companies operating in such industries on average?



managers remains strong. More than 60 percent of investors canvassed say covid-19 will not impact their appetite at all. Rather, it appears it is the impracticality of undertaking the intensive due diligence required for investors to get comfortable with new firms during international lockdown that will really make it hard for younger managers to get funds over the line.

"Covid-19 hasn't changed our appetite for emerging managers, but it will make the due diligence more complicated," says Janusz Heath, senior managing director at Capital Dynamics. "Chemistry is critical and so it is vital to see people eyeball to eyeball. If it is a team we know from a previous house or have been talking to for months or years, then that is different. But if it is a team we have really never met before, then a Zoom call just won't do."

Dan Tamkin, managing director at lower mid-market house Resurgent Capital Partners, agrees virtual fundraising is untenable for young managers.

"LPs want to form relationships as lines – not dots – and so the inability to meet face to face really stretches out the diligence," he says. "Ultimately, if someone is going to write your fund a large check, they will want to meet you in person. Zoom doesn't cut it."

Meanwhile, Nik Shah, managing partner and co-founder of mid-market firm Cohere Capital, which closed its debut fund in May this year, having built up a great deal of momentum prior to lockdown, adds that while appetite hasn't waned, the bar has become higher. "There is a greater need for emerging managers to prove their value and differentiation," he says.

Investors are also demanding greater levels of communication when it comes to existing portfolios, say emerging managers. Reporting on revenues and EBITDA projections has intensified, with 57 percent of managers having received increased information requests in these areas since the onset of the coronavirus. "In our experience, investors have a greater focus on cash planning," says Tamkin.

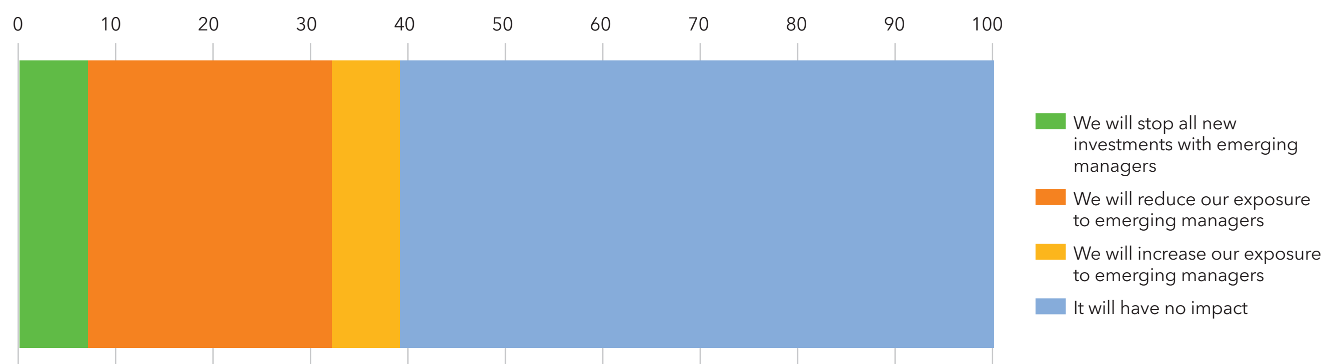
> *"Ultimately, if someone is going to write your fund a large check, they will want to meet you in person. Zoom doesn't cut it"*
>
> **DAN TAMKIN**
> **Resurgent Capital Partners**

LPs also want to be sure that GPs are factoring the covid-19 effect into their strategy and origination processes. Indeed, almost 80 percent of emerging managers surveyed plan to invest in industries deemed essential.

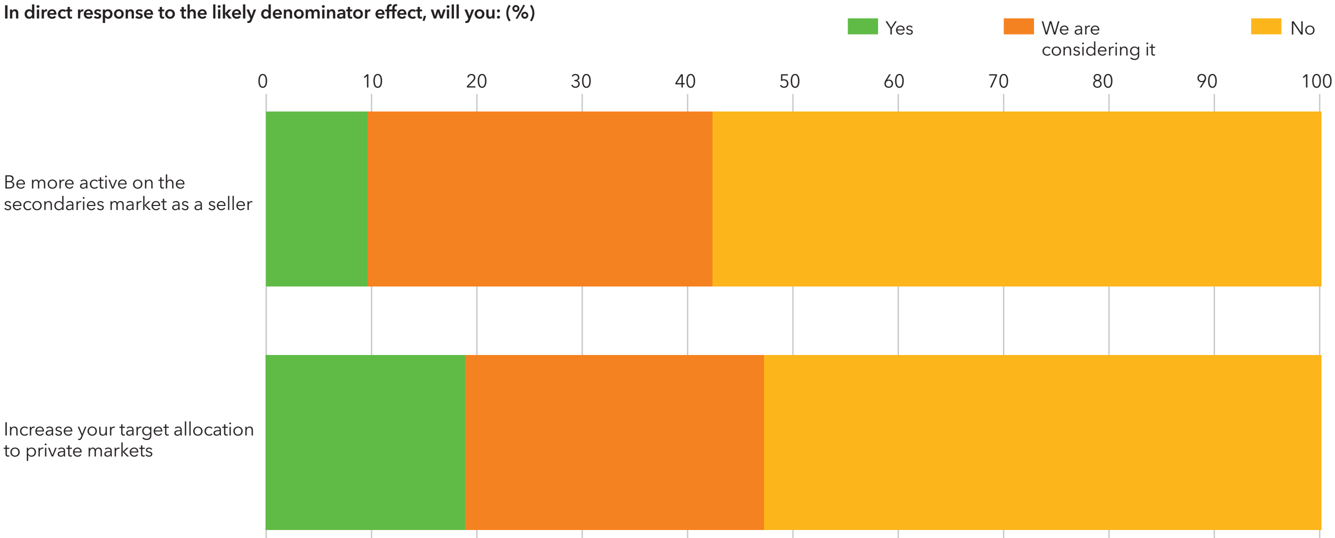
"It is too soon to say what the effect of covid on fundraising will be," says George Spencer, senior managing director at Chicago-based venture capital firm Seyen Capital, which is currently raising its debut vehicle.

"I would imagine that it will be more difficult to attract new investors without face-to-face meetings. Having said that, the types of business I invest in have been the ones that have kept this economy humming."

As an LP, what impact will covid-19 have on your appetite for investing in emerging managers? (%)



In direct response to the likely denominator effect, will you: (%)



Source all charts: Emerging Manager Survey, published by *Buyouts* in partnership with Gen II Fund Services

Q&A

A successful launch is tough even outside a pandemic, but a clean slate has its perks, says Cohere Capital co-founder and managing partner Nik Shah

Q Nearly all our survey respondents say they expect covid-19 to make fundraising more difficult. How can new managers overcome added hurdles?

Raising capital as an emerging manager always requires focus, differentiation and an ability to generate returns, but in a turbulent or uncertain market those attributes become increasingly critical. Managers should spend more time preparing for fundraising and refining their approach as to how they can create value for LPs.

A clear and concise investment philosophy and value proposition can take time to hone, in order to be communicated effectively, but right now that practice and preparation are critical.

In addition, a manager should invest time into proving the thesis can be successful by working to source deals and, if possible, even execute transactions.

Q Nearly 70 percent of manager respondents say they expect to delay a fundraising launch, but four out of five LPs say market shocks are not lowering their emerging manager appetite. Are plans to delay unwarranted?

There are a few factors that can play to an emerging manager's advantage.

Primarily, others delaying their launches can present a window of opportunity to be one of the few emerging managers in the market. Additionally, given that fundraising processes can take a significant amount of time, there is limited value to delay as the process will likely outlast the current market uncertainty.

Lastly, the feedback received at the beginning of a fundraising process can help make a manager better at communicating its message later in the process, once the environment improves.

Q LPs are asking for more frequent reporting in light of covid-19. How can new managers address these requests without becoming overwhelmed?

New managers have the benefit of a clean sheet of paper in many respects when it comes to portfolio company tracking and reporting, as well as LP communications more generally.

As such, when setting up their teams and processes, new managers should be cognizant of these desires for more reporting by LPs and can incorporate them into their initial workflow with portfolio companies as each investment is made. This, in many cases, is actually easier than 'retrofitting' reporting into existing processes.

Q Nine out of 10 managers surveyed expect to increase dealflow to take advantage of lower asset valuations. How can new firms balance the desire to deal with covid-related diligence challenges?

Emerging managers should be wary of a seemingly attractive deal environment, particularly if it makes them stray past their core expertise.

Although covid-19 has created challenges around diligence – by preventing in-person meetings and such – if a manager is investing into sectors or situations that are known to it, many of those concerns can be mitigated.

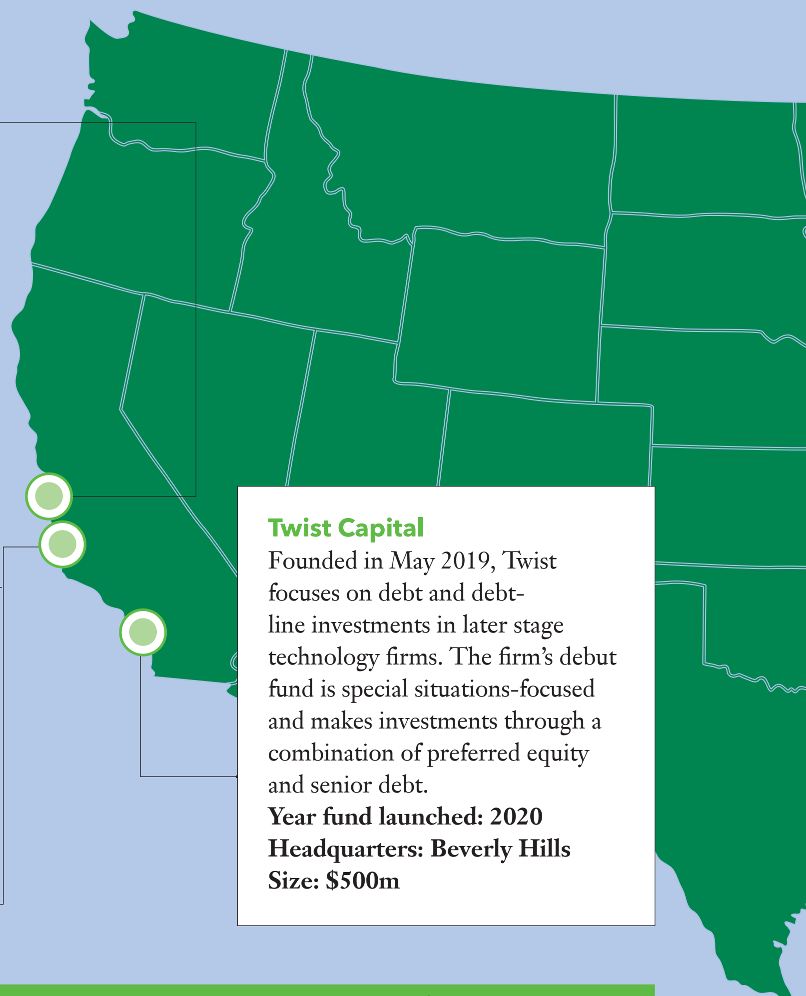
Pre-existing market or sector knowledge allows for easier diligence and less uncertainty that needs to be underwritten.

Also, as each day passes, the entire M&A ecosystem – bankers, lawyers, accountants – is becoming increasingly adept at virtual dealmaking and finding ways to do 'business as usual.'

In the end, most diligence, and particularly all the critical diligence, can actually be performed in a reliable manner, even today. ■

On the fundraising trail

The largest first-time funds being raised by US-based managers



Crosspoint Capital Partners

Launched last year by former Symantec chief executive Greg Clark, Crosspoint's strategy is focused on cybersecurity, data privacy and infrastructure software. Managing partner John Mumford founded the now-closed Crosspoint Venture Partners in 1982.

Year fund launched: 2020
Headquarters: Woodside, California
Size: $1bn

Knox Lane Capital

Founded by TPG Growth veterans John Bailey and Shamik Patel in late 2019, Knox Lane makes control investments in mid-market consumer and services businesses.

Year fund launched: 2020
Headquarters: San Francisco
Size: $500m

SER Capital Partners

SER was launched in 2019 and invests in sustainable, environmentally focused and renewable energy assets, and is currently working on several pre-fund deals.

Year fund launched: 2020
Headquarters: San Francisco
Size: $750m

Twist Capital

Founded in May 2019, Twist focuses on debt and debt-line investments in later stage technology firms. The firm's debut fund is special situations-focused and makes investments through a combination of preferred equity and senior debt.

Year fund launched: 2020
Headquarters: Beverly Hills
Size: $500m

Fund manager	Fund name	Target size ($m)	Year open
Arctos Sports Partners	Arctos Sports Partners Fund I	1,500	2020
Crosspoint Capital Partners	Crosspoint Capital Fund I	1,000	2020
OceanSound Partners	OceanSound Partners Fund	750	2019
SER Capital Partners	SER Capital Partners	750	2020
Brighton Park Capital	Brighton Park Capital Fund I	750	2019
Canapi Ventures	Canapi Ventures SBIC Fund and Canapi Ventures Fund	545	2019
Knox Lane Capital	KLC Fund I	500	2020
Equality Asset Management	Equality Asset Management Fund I	500	2019
Long Arc Capital	Long Arc Capital Fund I	500	2020
Spring Bridge Partners	Spring Bridge Partners	500	2019
Twist Capital	Twist Capital Fund I	500	2020

Brighton Park Capital
Founded in 2019, Brighton Park focuses on early-stage investments in US-based technology and healthcare companies. The firm launched its first fund in October last year.
Year fund launched: 2019
Headquarters: Greenwich, Connecticut
Size: $750m

Equality Asset Management
Founded in 2018 by former Summit Partners executive Thomas Roberts, Equality targets growth equity investments in North American healthcare and technology companies.
Year fund launched: 2019
Headquarters: Boston
Size: $500m

OceanSound Partners
Founded in 2018 by former Veritas Capital and Technology Crossover Ventures executives, OceanSound makes control-equity investments into US mid-market technology and tech-enabled services companies.
Year fund launched: 2019
Headquarters: New York
Size: $750m

Long Arc Capital
Launched in 2016, Long Arc Capital makes growth investments in the North American and European technology, business services, financial services, media and telecommunications industries.
Year fund launched: 2020
Headquarters: New York
Size: $500m

Spring Bridge Partners
Founded in 2017, Spring Bridge specializes in secondaries investments across North America. Last year, the firm launched its first fund.
Year fund launched: 2019
Headquarters: New York
Size: $500m

Arctos Sports Partners
Arctos is a private equity platform focusing on professional sports and sports franchise owners, partnering with owners and leagues to provide liquidity. Launched in October 2019, the firm is seeking to gather between $1.5 billion and $1.8 billion for its inaugural fund, as reported by sister publication *PE Hub*.
Year fund launched: 2020
Headquarters: Dallas
Size: $1.5bn

Canapi Ventures
Founded in 2019, Canapi is a venture capital firm focused on early- to growth-stage fintech companies. The firm launched its inaugural fintech funds in January, reporting $545 million in commitments secured at the time of launch.
Year fund launched: 2019
Headquarters: Washington, DC
Size: $545m

Q&A

A diverse team is a strong team, says Argand Partners co-founder and partner Heather Faust

Q For emerging managers, a strong track record is extremely important. What is the best way to communicate a new firm's track record to prospective LPs?

Our experience was that the case-study elements of track record were just as important to LPs as the numbers. It is critical to provide past investors and former management teams as references. Investors will independently seek references as part of the diligence process, but it's important to provide access to individuals who can speak to detailed experience partnering with you in various ways. Additionally, communicating how you create value during the investment process and quantifying the impact of your actions at each portfolio company is essential.

Q Bringing in new talent is a critical aspect of growing an emerging management firm. Has covid-19 made teambuilding more difficult?

Most often emerging teams have a good understanding of the "day one team," and usually they have worked together before. When we formed Argand Partners, the majority of our team had worked together previously. Subsequently we added talented operating resources and implemented associate and intern programs. We continue to hire for these programs and had already incorporated remote working arrangements for our interns before the pandemic. We also believe it's critical to maintain and build culture and ensure new hires are well integrated into the organisation. We have continued to ramp up our use of technology to improve productivity and enable our day-to-day work and interactions, and during covid-19 we've been pleasantly surprised at how effective this is.

> *"We believe that diversity helps create value"*

Q A significant portion of our LP respondents said formal diversity policies rank highly in what they look for in emerging managers. How can new managers balance the challenge of expanding the diversity in PE while maintaining a compelling track record?

We believe that diversity helps create value. Significant research indicates a diverse team produces better decision-making and better outcomes, so long as the unique perspectives of each individual are encouraged, respected and considered in decision-making. One challenge for private equity is getting more capital into the hands of diverse managers to produce more track records that also prove this. In addition, active leadership and a deliberate vision is required to build diverse teams at all levels, so that diverse individuals can build track records, individually, and as part of a team.

Q How can team composition help to differentiate an emerging manager from its competitors?

Building a team to reflect our philosophy and investment approach was one of the things that excited us most about forming Argand. We have a very hands-on approach to managing our portfolio companies, and we wanted to bring on talent that could both support the firm and work with our investment and management teams to serve the portfolio. We are also a team with a multitude of demographic, cultural, personal and professional backgrounds and experience – and we don't lack for strong views and opinions across the team! We think this makes our decision-making and our investment processes stronger, and we are proud of the team we have built at Argand. ■