The stresses of oversubscription

When demand for a fund becomes intense, placement agents have it easy don't they? Think again. Jennifer Cho Rinehart of MVision reflects on the many and various pressures generated by a popular offering.

After a week of calling investors on behalf of the general partner to inform them they were on a waiting list for an oversubscribed fund, the old saying that being popular is overrated came to mind. Investor reactions ranged from anger and disappointment to complete silence. The following week consisted of managing a deluge of inbound calls from investors who actually got into the fund but wanted to see how they could increase their allocations. Each investor had a valid and occasionally compelling reason why this should be allowed – they were 'existing', 'institutional', 'local', 'global', 'old', 'new', 'rapidly growing' - but by that point such pleas were irrelevant: the general partner had spoken and the allocations had been decided.

Rinehart: no walk in the park

A successfully oversubscribed fundraise is one that has been pre-planned and executed in an orderly and efficient manner with open lines of communication between the general partner and the limited partners. The placement agent's role in oversubscription is to ensure the process runs smoothly for all parties involved, easing the pressures on a general partner's time and decision-making and the limited partners' ability to process and access the fund. I believe in the power of outsourcing and that you are better off letting people focus on what they do best.

We have been diligent and fortunate enough that over five years a good majority of our funds have been oversubscribed, and with each one we have become a bit better at facilitating and managing this welcome but sensitive phase. Each time the tell-tale warning signs of oversubscription are different: one fund may scream it even before you compose a single line of the offering memorandum, while with another fund it can sneak up on you like a summer storm. And every once in a while, a fund will need to marinate in the market for an extended period before the full flavours of a general partner's story are fully appreciated and oversubscription follows.

So how do both the general partner and the limited partner benefit from a placement agent's involvement in a highly demanded fund? Below are some significant aspects to consider.

Optimizing the general partner's time. For a general partner, one of the greatest benefits of working with a placement agent in almost all scenarios is the maximization of their most valuable asset – time. Time needs to be carefully distributed and utilized, especially in the most buoyant markets, so the general partner can focus on investing as well as fundraising. It is often the case when access to a fund becomes scarce that there is a frenzy of activity and a placement agent is interacting with anywhere from 50 to 450 potential investors in a very short period of time. Even the most established general partner (without a portfolio to manage) will have difficulty being responsive to such a quantum of investors in a timely manner.

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Setting and enforcing a closing timeline. We determine a feasible timeline with the general partner to hold a quick and efficient close. Converting interest into currency is not as easy as it sounds, for it means making sure each investor has completed their due diligence before signing on the dotted line. It is the placement agent's job to communicate the timeline to each investor, but more importantly to help all parties meet it. Our value-add in this process is to keep an accurate and real-time progress report of all investors' internal processes (which can often be a large number). Key questions include: What exactly needs to be accomplished before receiving investment approval? What is the investment size? Can they accelerate the process or does the investment committee only meet three times a year? What are the fund's chances of being vetoed at each stage of the process?

Addressing investor questions and diligence requests. Responding to around 300 data points a day from individual investors, in addition to updating marketing and diligence materials prepared at the outset, requires a lot of placement agent hours. In this way, we build a book of qualified investor candidates and firm dollars, not unvetted names who claim they want in but have yet to complete any of the necessary work to make closing a reality.

Analyzing and selecting the LP base. We analyse the general partner's historic investor composition and compare that with the current investor candidate base, encouraging the general partner to prioritize existing relationships. We categorize investors in the queue with respect to the general partner's existing capital base. In addition, we identify areas where the general partner may have been historically lacking or where there is potential for investors to be additive to an investment strategy – this can mean, for example: tapping into a new and growing market of pension capital; bolstering support from a certain segment of the US investment community; or finding European corporate pension capital. We help the general partner differentiate investment programmes one from the other. This type of analysis and preparation ultimately helps to inform general partners' decisions in tough allocation discussions.

Diversifying the capital base. We advise that not all money is green and rarely does it last forever. We help the general partner achieve a capital base for the firm that is sufficiently diversified by geography, type and size. For example, we advise the general partner to avoid heavy investor concentration by balancing the number of large investors. During one fundraise when travel and diligence sessions had taken a toll, I came across a partner envious of a competing firm's limited number of core investors. The competitor was assured a fundraise where travel was limited to a two-hour car ride and diligence schedules did not require the postponement of a son's christening. But we agreed that if the competing firm's core investors should discontinue support for reasons related or entirely unrelated to the fund, their competition would be precariously positioned in future fundraises. As important as diversification is in portfolio construction, so we believe it is vital in investor composition.

For a limited partner, the benefits of our involvement in times of allocation stress are just as considerable. Below we look at some of these.

Accessing the general partner. A limited partner can find communicating with a fund extremely difficult, if not almost impossible, when the general partner is

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overwhelmed by deal activity and the numerous decisions required during fundraising. We provide the necessary conduit for potential limited partners to make sure they are in dialogue with the general partner throughout the process.

Assisting with the limited partner's due diligence process. Oversubscription usually also means an accelerated timeframe, leaving limited partners that are unable to expedite their own lengthy diligence process in a difficult position. One investor remarked: "we do not have a 'due diligence-lite' version that we can conduct to meet your timeframe". It is in these cases where placement agents can be extremely helpful in addressing specific investor concerns or answering frequently asked questions. We can facilitate the scheduling of on-site meetings or reference calls. We have completed extensive spreadsheets on fund performance, pulled market analyses and provided supplementary diligence to help the limited partner complete their internal process and meet the general partner's deadline. Where we cannot answer questions immediately, we usually know how to obtain an answer from the general partner in the quickest way possible.

Making sure the limited partner is fully understood. A placement agent can keep the limited partner informed of the general partner's position on certain matters. For instance, a state pension with a more layered process or certain legal requirements may need assistance from a third party to convince the general partner of their potential merits as a long-term partner. We can also convey to the general partner whether the investor's decision-making is on track at every stage. In certain instances where a new investor is trying to break into a popular fund, we have worked with the investor to better understand their program and help the general partner reach a fully informed view.

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Protecting limited partners from other limited partners. On occasion, some limited partners know they might get scaled back and may as a result play the game of high-balling their requisite commitment size. Asking for a much higher number than one typically invests can put fellow limited partners requesting real numbers at a disadvantage. Given our prior experience, we are quickly able to discern whether an investor's requested commitment amount is unusually inflated. Our knowledge of investor programs and recent behavior helps maintain fair play among limited partners during a heated allocation process.

So while people may think raising an oversubscribed fund is a walk in the park, it depends on who you ask. From a placement agent's perspective, raising any fund is more like running a marathon. You need to prepare, strategize, set the right pace and finish strongly. In an oversubscribed fund, the fundamentals remain the same as it is absolutely necessary to cover the same ground before reaching the finish line. The right result is to help general partners efficiently achieve optimal results and limited partners close on a much desired fund. ■

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