

OUT OF PLACE

You've just closed your fourth fund well over its hard cap and already there's a queue of LPs waiting for your fifth. So what use could you have for a placement agent? More than you might think.

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WHEN INFLEXION DECIDED TO GO OUT ON the road last year for its second fundraising effort, it thought carefully about using outside help. "We considered hiring a placement agent, almost as a kind of insurance option," says managing partner Simon Turner. In the end, however, Inflexion decided to go it alone.

"We are a relatively small fund and we wanted to raise the right amount of money for the sub-£50m market where we operate," he says. "We'd also talked to existing investors and new limited partner targets and felt confident we would get the support and momentum we needed to do it by ourselves."

Inflexion instructed an internal member of staff to do all the numbers, prepare the due diligence packs and private placement memorandum and off it went. "It took a long time and so there was a cost involved, but it was nothing like the percentage fee a

placement agent would charge," says Turner. For a firm raising just its second fund, it was a brave move, but it paid off. The firm reached a final close last autumn at its hard cap of £165m (€250m) in just six weeks.

Inflexion is far from alone in feeling that it can raise money from LPs without the help of a placement agent. Permira, arguably one of the most successful fundraisers in Europe, has never used one. "If you were a company, you wouldn't want to disintermediate the relationship you have with your customers," explains Philip Bassett, the partner in charge of investor relations. "It's the same for us. Our core relationships are with LPs - we want to manage those ourselves." For its most recent fund, the firm raised a staggering €11bn and still had to turn investors away.

Permira has considered using placement agents in the past - to target particular



regions, for example – but has found it doesn't need one. "We have two dedicated people in-house, plus the use of an accountant and a lawyer," explains Bassett. "But it's more than that. Everyone in the firm buys into the fact that fundraising is a major part of the business and they all get involved in some way."

It would be easy to conclude that success stories such as these mean the demise of the placement agent. But there is plenty of evidence to the contrary. While many firms have armies of people in their investor relations teams, others have taken a different approach. The Blackstone Group, for example, has a placement affiliate, Park Hill Group.

Others see placement agents as a complementary service to their in-house

time-consuming when the time comes because you're not starting from scratch."

And MVision is another. "It's no longer enough simply to pick up fundraising when a firm decides it wants to go out to market," says Guen. "We work continuously with our clients. We take the view that we should always be there for them whether they are fundraising or not and work with them on areas such as monitoring, business development and making sure they are interacting with the market."

Yet for more established firms, with several funds under their belt and LPs queuing to get in, the services of a placement agent may seem surplus to requirements. But even here, the agents say they can play a valuable role in their new guise as friendly outside adviser.

Yet most say this isn't an issue. They argue that choosing the right firms to work with is a key part of their role. And that means finding the stars of the future, not just the present.

"We have developed with the market and taken the placement business to the next level," claims Guen. "We don't just take on mandates. We look at where returns are going to be generated and work with the star players in those markets."

This approach is also taking some agents into more unusual territory. "We look at where the new areas are – the areas that LPs can't easily identify for themselves," says Apponyi. "This can mean working with spin-out groups, but it can equally mean working in newer and upcoming areas such as intellectual property or distressed funds."

Traditional role

But for all the talk about changing business models and advisory roles, there are still parts of the market that require more traditional placement services. Gresham Private Equity is a classic example. "We decided to use a placement agent for fund three because it was our first independent fund," says chief operating officer Paul Thomas.

After a successful fundraising, Gresham chose the same agent for its second independent fund, raising £340m. Whether it will pursue the same approach next time will be reviewed in due course, but Thomas is clear that the decision will be based on more than its most recent experience.

"It would be easy for us to think that because our last fundraising was successful, we don't need an agent," says Thomas. "But we are also aware that 2006 was not the most difficult time to raise capital."

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MOUNIR GUEN, MVISION

teams. "Quite a few of our mandates are done side by side with in-house investor relations people," says James Coleman of Deloitte. "We support them in their efforts and introduce them to other high-probability investors. To really know the investor community you need the strengths and resources of a large team."

Placement agents can provide a better view of the fundraising market than someone who only goes out, say, every few years. "An in-house person will really only get to see the market every three years and it's like starting afresh every time," says Mounir Guen, chief executive of MVision. "We are permanently in active mode and so we see all the changes."

Industry evolution

Yet placement agents have had to change their model in recent times. The business has developed into more than just introductions to potential investors. "As firms become more established and build their IR teams, they use placement firms in different ways," says Alexander Apponyi, who runs the European activities at BerchWood Partners. "We have evolved beyond just opening doors to investors. We also manage the process and act as a source of market intelligence."

As fundraising has become a continual process – firms now think about their next fund as soon as they close the previous one – placement agents are selling their services as being almost permanent consultants.

BerchWood is one, although Apponyi claims that it has always worked in this way. "Given the option, we work with our clients in between fundraisings," he says. "We help set up marketing programmes covering who they should be seeing based on demand and their goals. This helps to ensure fundraising is less

"There is always a window in which a firm will need a placement agent, but it does close a little as firms become more established," admits Armando D'Amico, managing partner of Acanthus Advisers. "With a first fund, for example, it may be necessary to work with an agent. But once you get to fund four or five there may be less need. This only stands, however, if the firm ticks pretty much all the boxes with LPs, and that's rare."

Guen agrees: "Placement agents can be relevant to well-established teams. If you are raising fund four or five, the chances are you'll be facing succession issues or the new management will want to set the right tone.

We can offer advice on this and act as a sounding board. Or, if you are on fund nine, for example, you may well have picked up bad habits or have dead wood around."

One problem with this approach is that if a firm becomes an ongoing client, it becomes less easy to offer objective advice and harder to present a fund to LPs as hand-picked.

"It's not something I'm keen on," says one agent, who preferred not to be named.

"I like to be able to tell LPs that these are the funds we have selected to work with."

