THE NEW ROAD

Placement agents are now established parts of the fundraising street furniture. But some of the most successful funds go it alone. It can be a long, long road. Do these advisers smooth the way?

BY LAUREN MILLS

When BC Partners launched its €4bn fund in January last year, it decided to contact investors directly. Permira, which raised a phenomenal €5.1bn in 2003 in Europe's biggest fundraising, also managed to get its money without recourse to a placement agent – specialist firms which act as intermediaries in the world of fundraising. Their job is to match cash-hungry funds with cash-rich investors.

But if BC Partners and Permira can raise huge amounts of capital without them, why are other firms increasingly turning to placement agents in recent years?

The use of placement agents is certainly on the rise. PAI Partners, a French buy-out firm, hired Credit Suisse First Boston as placement agent when it went on the road in September 2004. Gresham used International Private Equity to help raise its first independent fund, which surpassed its target to reach £235m. Electra Partners Europe has used the private placement arms of two investment banks, Merrill Lynch and UBS, to help it raise funds. Exponent Private Equity, which was spun-out of 3i last year, hired Helix Associates to help raise its maiden fund. Bridgepoint has also used Helix, while Terra Firma went with Merrill Lynch, and Doughty Hanson used CSFB. The list goes on.

Many believe 2005 will be a bumper year for fundraising. With many of the large funds coming to the market at the same time, investors are expected to be more selective than ever when it

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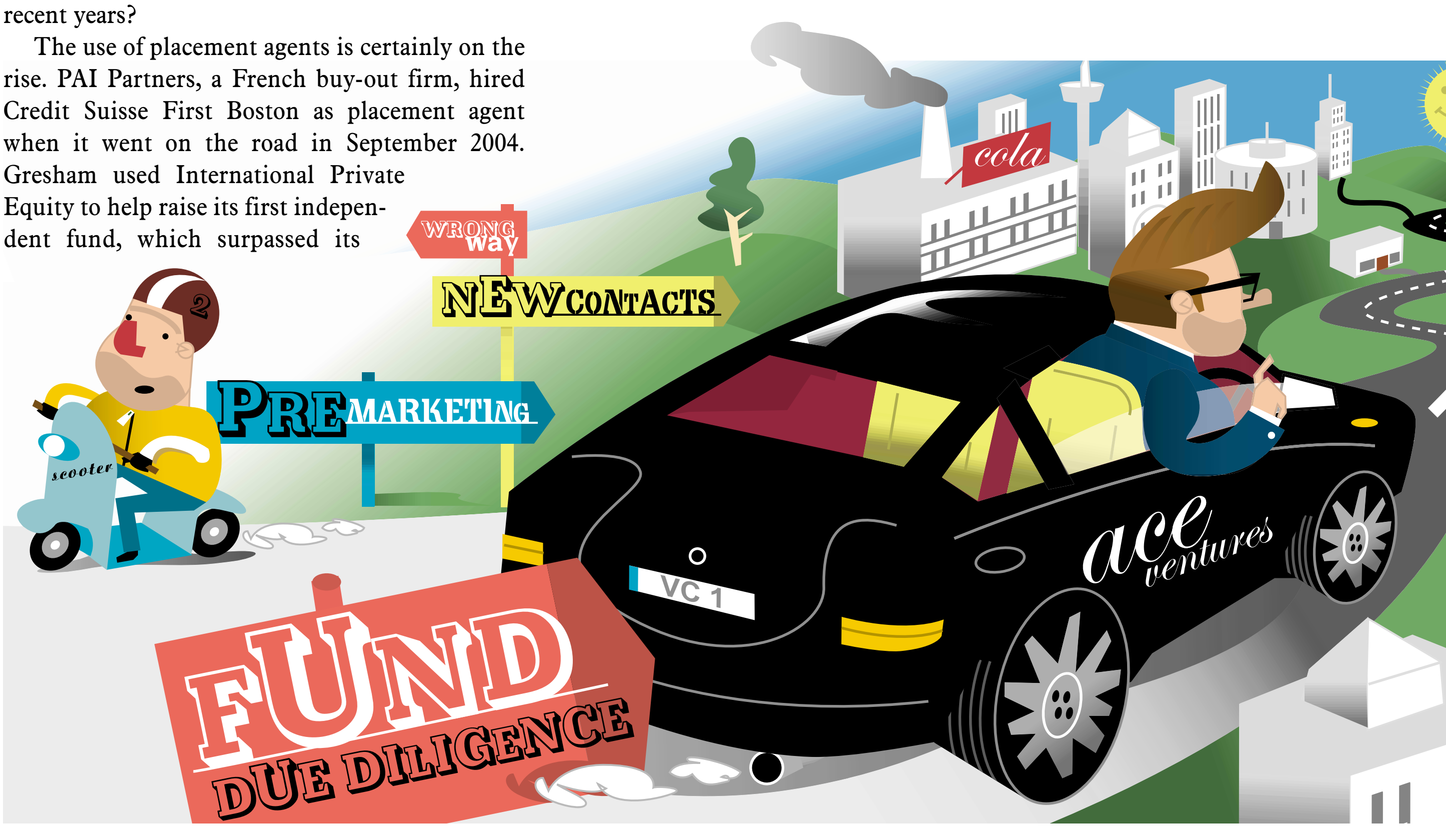


comes to choosing which ones to invest in. This puts general partners under pressure to do whatever they can to ensure their private placement memorandums are at the top of the pile.

Mounir Guen, chief executive of boutique placement agency MVision, believes GPs who decide against appointing a placement agent do so at their peril. "A placement agent is a necessity," he says. Why? "Because if the job is done well it brings a level of sophistication and experience to the fundraising process." MVision recently helped EQT raise $2.5bn in the Nordic region and Germany. The firm also advised Abingworth, the life sciences venture capital firm, in its bid to raise $350m.

Cherry-pickers

But what exactly do placement agents add to the process? Surely most private equity firms have ample skills in-house to liaise directly with potential investors? James Coleman, who joined Deloitte from UBS in November 2003 to set up a placement agency division, believes placement agents bring a myriad of relationships with investors that most GPs do not have. "We can cherry-pick which investors are likely to come into a particular fund, increasing efficiency and minimising risk in the fundraising process," he says.

"We ensure GPs only go to meetings with the right people and that the sales message is put across in the most effective way. A good placement agent should be able both to guarantee that the fund will be raised and that a high proportion of investors contacted will come into the fund. We would be disappointed with anything less than a 65 per cent success rate."

Private equity firms typically go fundraising every three or four years. Placement agents argue that this is a long time to be out of the market. Ian Simpson, managing director of independent placement agent Helix Associates, says: "Investors go in and out of the market, there are personnel changes and their investment requirements change. We place four or five funds a year and we are in the market all the time. We are up-to-date with who wants what from the investors' point of view," he says.

So placement agents claim to have a wealth of contacts that private equity firms lack. But given that they charge between 0.5 per cent and three per cent of new money raised, and sometimes of total funds raised – their fees and terms of engagement vary wildly – surely they must bring more than a list of names and contact details to the table? Otherwise they would be little more than an extremely expensive telephone directory.

Simpson says they do. He believes that financial institutions have become more strategic and more sophisticated in assessing potential investments. "In the dot.com boom people made a lot of investments in telecoms, media and technology funds without doing huge amounts of due diligence. But many of them got their fingers burned. You

WITH MANY A WINDING TURN

When four former executives of 3i were plotting the launch of Exponent Private Equity, they knew fundraising would be their biggest challenge. They may have been responsible for some of 3i's most successful investments, including Travelex, the foreign exchange company, and budget airline Go, but they had no track record on their own and had never been fundraising before.

Tom Sweet-Escott, one of Exponent's founders, says the decision to use a placement agent to help raise the firm's maiden £400m buy-out fund was a "no-brainer".

"At 3i we were intimately involved in deal activity, but we had only been on the periphery of fundraising activity, so we did not have relationships with the investors," he says. "It was therefore critical to use a placement agent who could introduce us to them." Exponent decided to use Helix Associates, a placement agency boutique, which helped the private equity firm raise its first fund at breakneck speed.

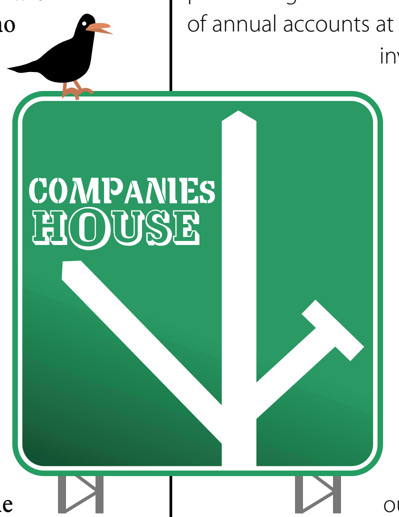
But what drove Exponent's decision to hire a boutique rather than one of the big investment banks, many of which also offer placement agency services? "We wanted a placement agent with an excellent reputation, but which was a bit like us – a collection of individuals deeply motivated to make it happen," says Sweet-Escott. "Our concern about using an investment bank was that if the product was not selling fast, they would offer another instead."

Helix went to the market in early March and the fund's £260m first close was announced in June. A final closing followed in mid-August. Investors included Danske Private Equity, Lombard Odier, LGT Capital Management, Allianz Private Equity Partners and West Midlands Metropolitan Authorities Pension Fund.

This is an impressive list of institutional names for any fund, let alone a start-up, and the speed with which it was raised will be the envy of many of Exponent's mid-market rivals.

Sweet-Escott and his colleagues know they could not have done it without the agent's help. "Helix helped us articulate our investment proposition in a very crisp and clear way, in a way that the LP community fully understood," says Sweet-Escott.

Before making contact with the investors, Helix did two months of due diligence, carried out with painstaking attention to detail. With help from Exponent's directors, the firm scrutinised 6,900 pages of annual accounts at Companies House to reconstruct cash-flow records for each of the director's 60 investments. "We made sure we had a proper audit trail for every cash-flow," says Ian Simpson, Helix's managing director. The firm also made more than 60 reference-checking calls to establish how the former 3i executives were perceived by the people they had worked with.



Happily, it all stacked up but there was still more work to do. Before making contact with potential investors, Helix had to be certain Sweet-Escott and his colleagues could generate deals without the backing of the 3i brand. "We found the relationships they had built with intermediaries were quite personal to them, as well as 3i, and contacts had confidence in them. So we felt that the intermediaries would continue to show them deals," says Simpson.

Exponent's first fundraising was one of the quickest and most successful in recent years. And while Sweet-Escott says he would use Helix again, Exponent's ultimate aim is to bring fundraising in-house. "If we have done well for investors and have good relationships with them, we would like to think we could do it ourselves – but that is a decision for a long time ahead."

"We can cherry-pick which investors will come into a fund, increasing efficiency and minimising risk" James Coleman, Deloitte

can't invest on gut feeling anymore: there has to be a proper process, with audit trails for every cash-flow," he says. "You need to know who can say yes and who can say no, and at what points in the process. These sorts of subtleties can be lost if you are not in the market all the time."

You snooze, you lose

Simpson estimates that it takes three months to compile a thorough due diligence report – and that's before any pre-marketing can take place. "Investors have become very demanding in terms of quantitative and qualitative information. They want to know how value was created in investee companies. It can catch a GP by surprise if they are asked for this amount of information. It's like trying to repair an aeroplane in mid-flight if you are asked for mountains of information you did not expect and you have to scurry around to prepare it."

It is believed that Permira, which decided to keep fundraising in-house, was asked to complete 140 due diligence questionnaires for its last fundraising round. Simpson calculates that it would have taken half a day per questionnaire, or two man months of form-filling, never mind the inevitable list of supplementary questions.

So in addition to a long list of investor contacts, placement agents pride themselves on their ability to provide a thorough analysis of the firm seeking new funds. Typically, they make dozens of reference-checking calls to verify that what the GPs claim to have achieved is actually true.

This is vitally important, for the reputation of the placement agent is also on the line. If they persuade investors to put money into a poorly-performing fund, they can be pretty certain the institutions who invested in it won't want to deal with them again.

Simpson and his team at Helix take their responsibilities to investors, as well as to their private equity clients, extremely seriously. "The directors of Helix must invest in the funds we place. That is a requirement," he says. "I would typically invest an amount equivalent to gross base salary." This gives a level of comfort to investors beyond the normal line of duty and Simpson hopes it will help Helix differentiate itself, and its clients' funds, from the competition.

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> **"Bad agents just open a few doors and take the commission; they don't add to the process"** Stephen Robinson, Macfarlanes

Agents of change

Placement agents have really come into their own in the last few years as investors have become more demanding. The service was initially offered by a handful of individuals, and the big investment banks such as CSFB and Merrill Lynch entered the market when fund sizes started to creep up. They were attracted by the biggest funds that would earn them the fattest fees. Guen, who set up MVision in 2001 and who used to work in Merrill Lynch's placement division, felt there was a gap in the market for advising mid-cap clients.

"Merrill Lynch was looking for certain types of private equity funds and a large proportion of the market was unattended to. So boutiques started to form," says Guen.

Deloitte's Coleman also took the view that advisers with a mid-market focus could do well. Deloitte focuses on mid-market funds that invest in deals up to around €800m. "More investors were looking to invest in mid-market funds so we felt there were more opportunities for placement agents in that area," he says.

As the market for placement agents grew and competition between agents intensified, it was inevitable that some firms would carve out a better reputation than others.

Stephen Robinson, a partner in fund formation at legal firm Macfarlanes, reckons a good placement agent should add value to the fundraising process by being rigorous with the private equity house in terms of what is put into the private placement memorandum. "Bad placement agents view it as their job to just open a few doors and take the commission; they don't add to the process," says Robinson.

THE BIGGER THE FUND...

Placement agents play an important role in raising funds, according to the *Annual Review of Terms & Conditions 2004* by Swiss gatekeeper Strategic Capital Management. The study found that about 58 per cent of funds use their services. However, the figures were skewed towards larger funds, with three-quarters of funds targeting more than $200m using the services of a placement agent.

WHO'S USED WHO

Private Equity Firm	Placement Agent
PAI Partners	CSFB
Gresham	International Private Equity
Electra Partners Europe	Merrill Lynch, UBS
Exponent Private Equity	Helix Associates
Bridgepoint	Helix Associates
Terra Firma	Merrill Lynch, Citigroup, Nomura
Doughty Hanson	CSFB

"Most funds starting up will need a placement agent – and probably for the second fund too" Tom Sweet-Escott, Exponent Private Equity

Size does matter

Robinson believes it is crucial that private equity firms are careful when deciding on a placement agent for any particular fundraising job. "The size of the private equity house tends to dictate the type of placement agent they use. Small private equity firms raising between £100m to £300m shouldn't really use one of the big investment banks as, generally speaking, they will not get the right level of service. The banks are generally geared to £1bn-plus funds."

Remy Kawkabani, managing director of CSFB's private fund group, admits that the big banks like to win the largest mandates, as these offer big fees. "But the bottom line is that you have to generate revenue," he says. CSFB has helped raise funds ranging in size from $200m to $5bn. "We are uniquely positioned because, although we are part of a large investment bank, we run our [placement agency] business like a boutique. So we have complete autonomy and are independent."

Yet while placement agents believe they have a vital role to play in the fundraising process, the fact that BC Partners and Permira were able to raise huge funds without their help shows they are not always necessary.

Start me up

Tom Sweet-Escott, one of the founding partners of Exponent, believes placement agents are critical for start-up funds, or firms looking to break into new sectors or new global markets. "Most funds starting up certainly need a placement agent, and probably for the second fund too as you'd still have a less-than-perfect investment story at that stage. But by the third or fourth you could probably bring fundraising in-house."

Simpson is convinced that placement agents have a broader role to play. He believes that, as market conditions have toughened and fundraising has become increasingly difficult, placement agents can play an important role as an on-going investor relations adviser.

For firms reluctant to set up a full-time investor relations team in-house, this can be a cost-effective way of dealing with day-to-day relationships with LPs and potential investors. However even firms with talented in-house investor relations teams, such as Bridgepoint, sometimes hire placement agents for additional fundraising advice.

There is no doubt that it is possible to raise funds even in the toughest markets – for private equity firms with a proven track record and credible investment strategy. But as the number of funds looking for cash at any one time increases, it is more important than ever to ensure that only relevant investors are contacted for any particular fund. Mistakes along the way can be costly – both in terms of management time and reputation.

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