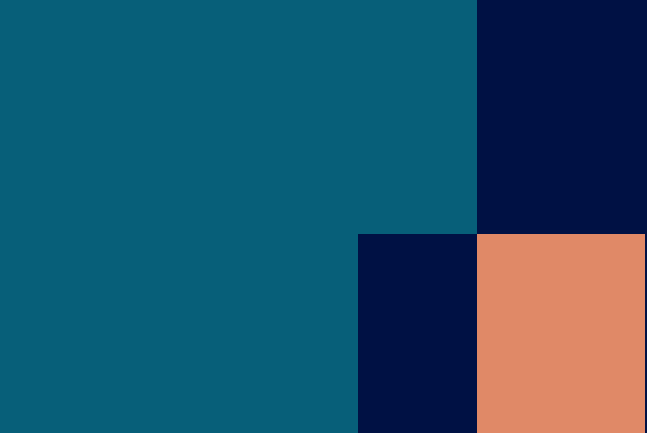




# EMERGING MANAGERS BAROMETER



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# FOREWORD



**The current appetite for private equity and venture capital amongst intuitional investors is a something of a double-edged sword for emerging managers. On the one hand, the demand for exposure to the asset class is extremely high. On the other, with so much competition in the marketplace, it can be hard to stand out and compete with older firms.**

Yet emerging managers are the lifeblood of our industry, and, as numerous studies have shown, they often outperform their more established peers. Whilst there are doubtless challenges for those brave managers in the early years, there are boundless opportunities as well.

To that end, the BVCA wanted to gain a better understanding of what investors are looking for when it comes to backing the new generation of private equity and venture capital fund managers. Between January and February 2020, we surveyed more than 40 global institutional investors and family offices to garner their views, from how they define what an emerging manager is, to the attractions and challenges of investing. We also discussed the findings with a number of fund managers who have themselves been through the growing pains of fundraising and whose thoughts we share below.

**Leon de Bono**, Assistant Director General, BVCA

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# INTRODUCTION

As emerging managers would be the first to admit, the world of private equity can be a tough maze to navigate. This is particularly so for those fund managers raising a first time fund or aiming to gather institutional capital for a step change on a follow-on fund. While emerging managers are seen as hungry to out-perform, often delivering a more unique investment strategy and with greater alignment on the economics, they face fundraising challenges including offering smaller ticket sizes and proving track record.

In this report, we try to cut through the clutter and help emerging managers find their way through some of the 'do's and don'ts' of raising their second or third fund.

There is no one-size-fits-all approach to ensure success in this competitive space – but gaining an understanding of how investors think, along with learning from other managers who have done it before, will, provide valuable insight to emerging managers.

To that end, the BVCA surveyed more than 40 global institutional investors and family offices between January and February 2020 to gather their insights on the challenges and opportunities facing the new generation of private equity and venture capital fund managers. Among the other findings you will find within this report, there are two key messages that emerging managers can take away:

**1** Talk to as many people as you can: Keep in mind that the entire ecosystem of investment professionals, be it administrators, lawyers, placement agents, auditors or investors themselves, is rooting for you. So, we would recommend that you take time out to talk to them and solicit their help. What's more, in the case of the professionals, the first conversation is generally gratis – so make it count!

**2** Don't underestimate the time it will take: Despite having a conducive ecosystem around you, it will still take a lot of time and effort to put a team together. Imagine getting people with the right skills to work together and produce returns for 15 years or more! It will demand patience on your part to develop the track record and the right investment strategies that will attract potential investors and win their trust in your fund. Be prepared to go through the pain, and the gains will start piling up.

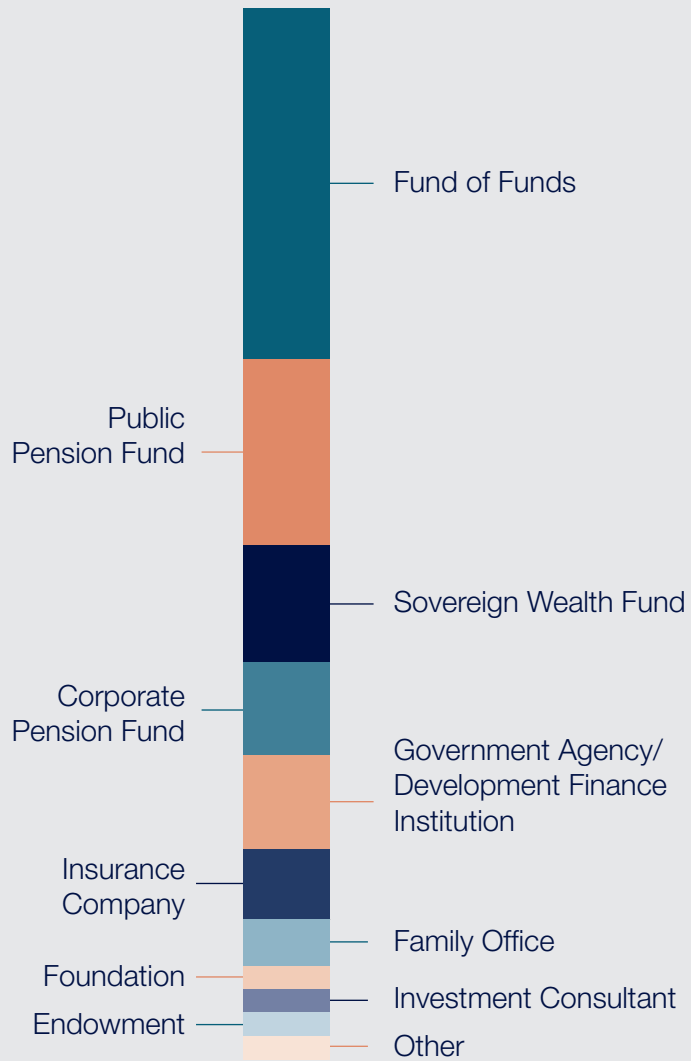
This survey is a snapshot of thoughts and suggestions from investors and fund managers alike. And as a number of emerging fund managers have suggested based on past success, it's not just about money but the fact that managers entering the industry bring it a fresh perspective. As emerging managers challenge old practices and bring new solutions to old problems – they are better positioned to deliver on returns in a rapidly changing world where traditional assets are fast losing their appeal.

**Justin Partington**, Group Head of Funds, IQ-EQ

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## WHAT TYPE OF LP ARE YOU?

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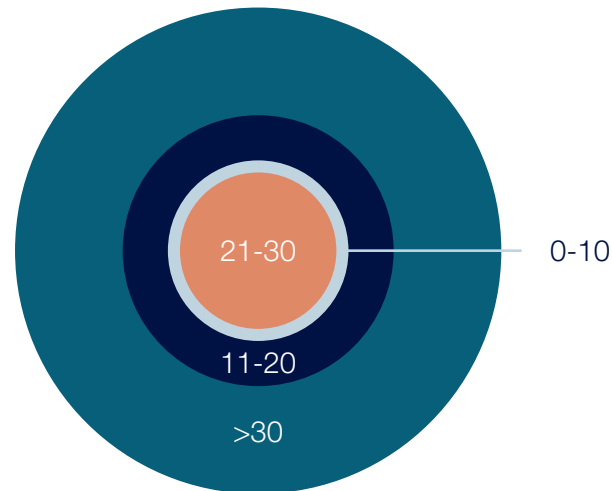
## IN WHICH COUNTRY IS YOUR HEADQUARTERS?

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## HOW MANY GP RELATIONSHIPS DO YOU HAVE?

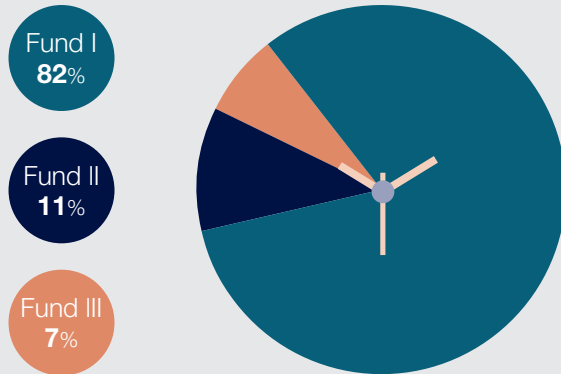
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**“Prior to raising our first fund, we knew about three LPs. I now know about 100”**

**Mike Reid**  
Senior Partner, Frog Capital

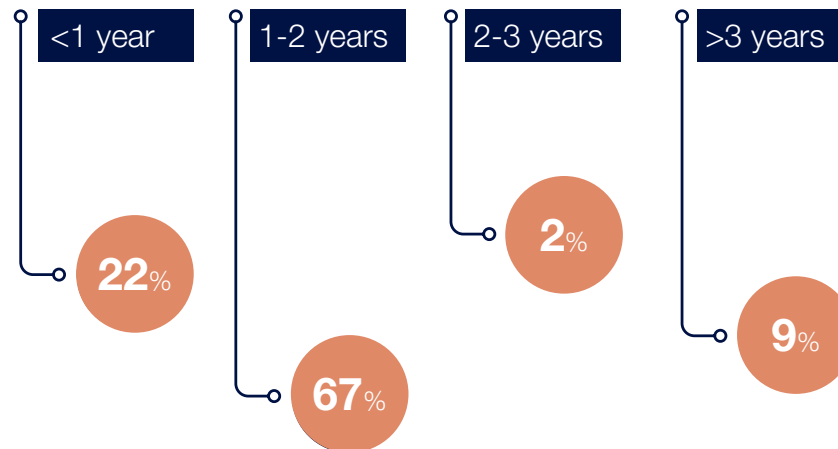
## WHAT IS THE **FIRST STAGE** AT WHICH YOU WOULD CONSIDER **INVESTING** IN AN **EMERGING MANAGER**?



“There’s clearly investor appetite for emerging managers at the earlier stage of their funds’ lives. That’s where the best terms can be negotiated, of course. From the managers’ perspective, it means expectations need to be kept in check when going on to funds II and III – even more work may need to be done to attract new investors at those stages, if indeed new investors are needed.”

**Geoffrey Kittredge**, Partner, Debevoise & Plimpton

## HOW LONG DID YOU TRACK AN EMERGING MANAGER FIRM BEFORE COMMITTING?



Almost all investors are comfortable with investing in an emerging manager they have known for less than two years.

“We knew very few LPs prior to raising Fund 1 and therefore the vast majority who invested in us were new relationships. In Fund 2, all our existing investors followed on and we brought in some additional LP. As we have evolved, we have continued to develop relationships with LPs.”

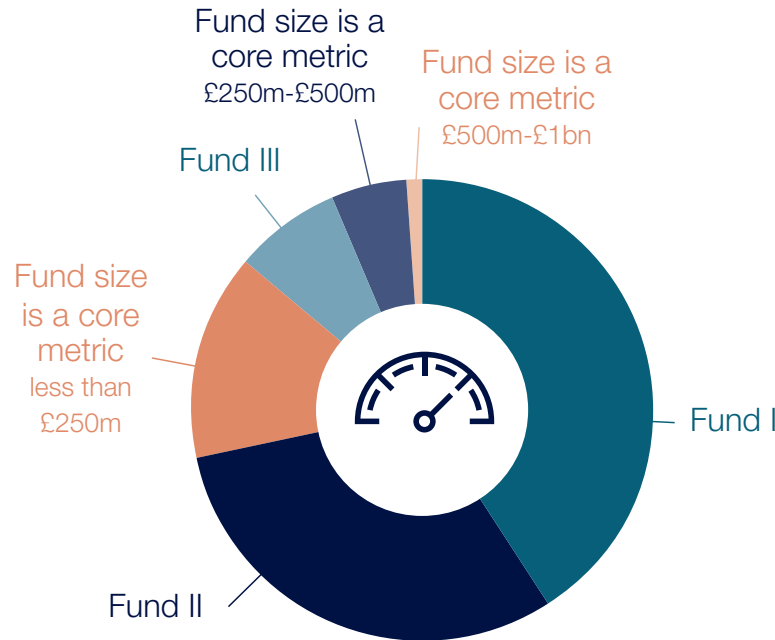
**Malcolm Kpedekpo**  
Investment Partner, Panoramic

## WHICH OF THE FOLLOWING WOULD YOU CONSIDER AN EMERGING MANAGER?

Few respondents consider a manager raising a third fund as emerging

Fund size is a core metric for just over half of LPs

Funds larger than £500 million are regarded as emerging by a very small minority



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## AT WHAT LEVEL OF INVESTMENT/EXIT ACTIVITY WOULD YOU NO LONGER CONSIDER A GP TO BE AN EMERGING MANAGER?

A **manager** that has made **10+ investments** is **not** considered emerging

**Respondents split on exit activity,** the most popular response either **five exits or 10**

Even if a manager has had **less than five exits,** over **a quarter of investors** would **no longer** consider them **emerging**

## WHICH OF THE FOLLOWING HAVE THE MOST **POSITIVE IMPACT** ON YOUR VIEW OF AN **EMERGING MANAGER?**

### TOP 5



TRACK  
RECORD



Investors highly value track record, team history and differentiated investment strategy



HISTORY OF  
TEAM WORKING  
TOGETHER IN PAST



DIFFERENTIATED  
STRATEGY



ALIGNMENT  
OF ECONOMIC  
INTEREST

Surprisingly, ESG is the least important criteria for investors, with diversity second least important



PROPRIETARY  
DEAL FLOW



**“Emerging managers naturally have a deeper focus than established funds. They have to be more thoughtful on thesis, their teams are smaller, and they have less existing commitments to manage. As a result, they can devote more time to hustling into the best deals. On the flip side, it is harder and more time consuming to raise capital as an emerging manager.”**

**Jon Coker**

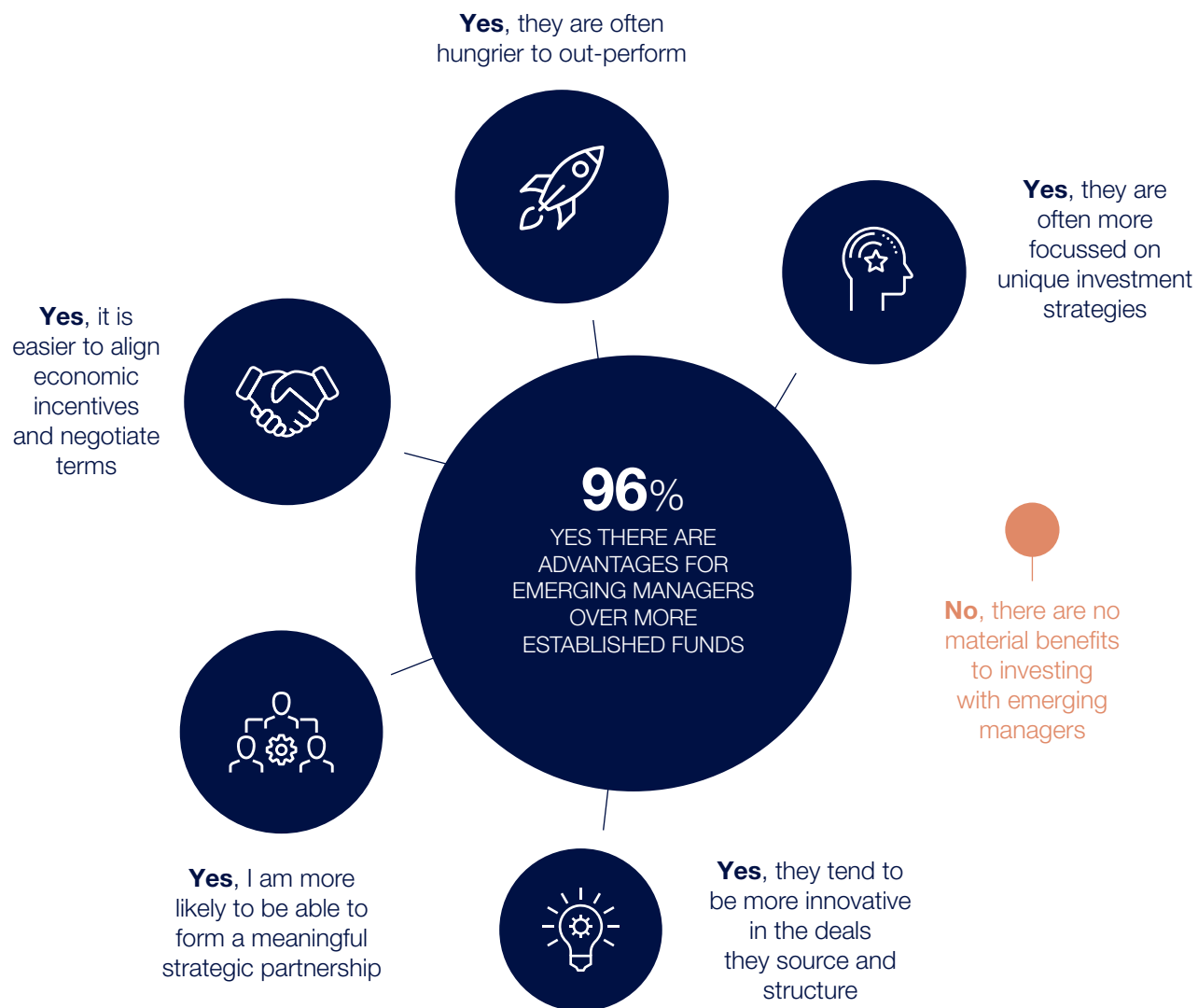
Founding Partner, Eka Ventures

**“It is very hard for emerging managers to raise 10+ year blind pool capital, and it should be! It is also very hard for LPs to build conviction on an emerging manager. But it does happen. And when it does, there are few things as satisfying to an LP as helping an investor entrepreneur build their franchise.”**

**Tom Rotherham-Winqvist**

Managing Director, Wafra

## DO YOU THINK **EMERGING MANAGERS** HAVE ANY **ADVANTAGES** OVER MORE ESTABLISHED FUNDS?



**“This is a reassuring, if not surprising, finding for emerging managers. There seems plenty of awareness in the market about the relative advantages of an emerging fund manager, and in the current volatile environment, qualities such as innovation, unique investment strategies, hunger, and relationship building are likely to be particularly important.**

**Geoffrey Kittredge**  
Partner, Debevoise & Plimpton





## WHICH ARE THE BIGGEST INTERNAL OBSTACLES TO INVESTING IN EMERGING MANAGERS?

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**1** Lack of track record



**2** Resource constraints



**3** Too small for our target cheque-size



**4** Poor results with emerging managers in the past



**5** Lack of/limited co-invest opportunities



**6** Formal policy not to invest in emerging managers

**“Two of the biggest challenges for emerging managers are brand recognition and track record. These are compensated through hard work and differentiation of focus.”**

**Pogos Saiadan**

Partner, Greyhound Capital

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**“The strengths that are most important to an emerging manager are: high conviction of portfolio construction; a heightened focus on founders and providing expertise to build successful platforms; and strong alignment of interest with investors.”**

**Gavin Holland**

Partner, Anthemis

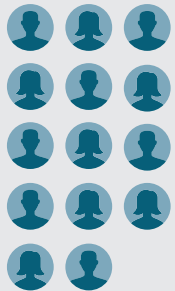


## HOW MANY **MANAGERS** HAVE YOU COMMITTED TO IN THE **PAST THREE YEARS** THAT ARE...

### RE-UPS TO EXISTING MANAGERS

14

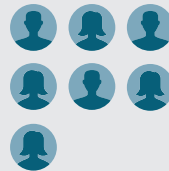
average



### NEW RELATIONSHIPS WITH ESTABLISHED MANAGERS

7

average



### NEW RELATIONSHIPS WITH EMERGING MANAGERS

6

average



“It is incredibly difficult to raise your first fund but once you do, there is no better feeling than being in charge of your own destiny and being completely aligned to the businesses and entrepreneurs you back.”

**Malcolm Kpedekpo**, Investment Partner, Panoramic

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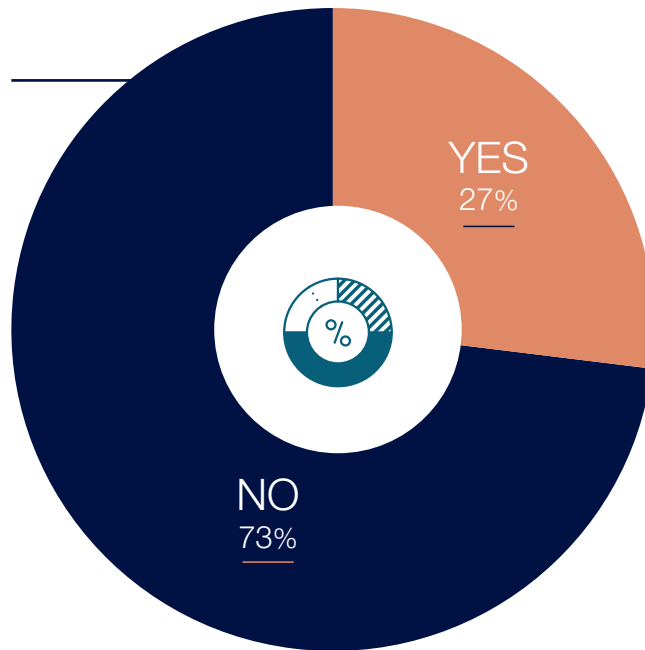
## DO YOU HAVE A **TARGET ALLOCATION** TO **EMERGING MANAGERS**?

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Most LPs do not have a target allocation for emerging managers nor do they plan



Over 42% expect to invest more in emerging managers in the next three years



**“There is increasingly positive sentiment toward emerging manager due to a preponderance of data showing the benefits. However, the translation into action and conviction is slower than the rhetoric.”**

**Chris Haley,**  
Co-Founder & Partner, 01 Ventures

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**“I think it is becoming easier on one level for emerging managers as LPs are more open-minded, but also harder because there are more managers raising, old and new.”**

**Mike Reid,** Senior Partner, Frog Capital



# CONCLUSION

This survey was undertaken in January and February, when the world was only just waking up to the impact of the coronavirus outbreak. Since then, there are few areas of the world economy that it hasn't changed.

Volatility and uncertainty are clearly going to be defining characteristics of markets around the world for some months, if not years, as governments continue to respond to the outbreak, and businesses continue to grapple with the myriad challenges it throws up. So whilst this survey was conducted just as the outbreak was truly gathering global pace, there are a couple fillips for emerging managers in the findings.

First, where there is volatility, there is opportunity. In many ways, it's a tenet that underpins a great deal of private equity activity. And in order to take advantages of those opportunities, managers need to be nimble and innovative, and open to differentiated strategies. These are exactly the characteristics that draw investors to emerging managers, as borne out by the survey.

Second, as investors become more risk averse, relationships will come to the fore. This is an area that emerging managers can often trump their more established cousins. Creating, sustaining, and improving relationships are areas where emerging managers in particular tend to excel. That's not to say that these qualities can't be found amongst the more established houses, but it's certainly a more consistent characteristic amongst emerging managers.

All that said, the coming months will clearly bring more economic downs than ups, as the world continues to grapple with the outbreak. Few areas of private equity, or indeed the wider economy, are looking at the immediate future with relish. But perhaps emerging managers are better placed than many to succeed in these times, and be able to come out the other end of it with momentum.

**Geoffrey Kittredge**, Partner, Debevoise & Plimpton

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# WORDS OF WISDOM

**“Make sure you give yourself time to raise. The fundraise is a long process and it takes a year to build momentum and get into the allocation cycles of individuals.”**

**Jon Coker**, Founding Partner, Eka Ventures

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**“Over-invest in the operations side of the business.”**

**Pogos Saiadan**, Partner, Greyhound Capital

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**“Prove your thesis, show you have the ability to lead deals and have a successful track record.”**

**Gavin Holland**, Partner, Anthemis

**“The quality of your senior team quality and the way you work together under pressure is absolutely critical. Focus on making money, not just doing deals, stick to your strategy, have excellent governance and risk controls, and make sure your messaging is crystal clear.”**

**Mike Reid**, Senior Partner, Frog Capital

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**Name**, Company