# Q&A

## CLAY DENIGER

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*Capstone's Clay Deniger discusses the role of technology and digitisation in fundraising and the impact it could have in the long term.*

By *Talya Misiri*

**In what ways has Covid-19 impacted fundraising? How did the market initially react and what does it look like now?**

LPs typically process crises in three phases: commitments freeze for a period; then transition to an opportunistic stance; and then it resumes a normal approach. Looking back to the GFC, the frozen, fear-driven stage was quite extended; it wiped out a year of fundraising for the most part. We see something quite different during the Covid crisis. In April and May, investors pulled back from new introductions, but continued an orderly approach to their active pipeline and actually completed commitments in the second quarter. At Capstone, most clients held a closing in Q2 2020.

Our experience has been that LPs finished what they were working on in an orderly fashion, then assessed the condition of their own portfolios, and quickly turned to a more opportunistic approach assessing opportunities and making commitments to new relationships.

Those that sat out in 2009 missed the best vintage years of a generation, and we've seen LPs quickly pivot to keep new commitments flowing. We expect that to continue or to accelerate in 2021.

**What role has technology played in fundraising in the last year?**

Technology in fundraising has played a similar role in 2020 to what it has played in society at large. Virtual interactions have replaced personal interactions, and what is different today from the crisis of 2009 is that technology advancements provide tools to help us bridge the gap during the crisis.

Video interactions have allowed LPs to continue underwritings. Sponsors have utilised multiple communication channels to provide updates during the crisis, such that communication has actually increased dramatically.

We have needed technology to support LPs who want to continue making commitments through this period. LPs have used tools beyond video conferencing – they've looked for substitutes for the comfort that comes from in-person interactions; they've ramped up their networking and referencing using tools like LinkedIn to triangulate to offline references.  They've looked to do virtual walkthroughs on the GP side to replicate site visits.

Overall, technology has brought a lot of efficiencies to the fundraising process.

But, there are still deficiencies that exist. In a business that is built on relationships, there is no substitute for sitting across the table and meeting someone in person. That is an element of underwriting that will rebound almost immediately when it can be accomplished safely.

**How does Capstone utilise technology in fundraising processes? Does this change for each mandate?**

Our business is built around the strengths of our relationships with LPs, managers, and potential clients. That said, for 20 years, we've built Capstone around a systematic process and technology tools that help us manage fundraises, manage LP demand and execute along the way.

We bucket those technologies into three different areas. We spend a good amount of time planning a fundraise before it launches, on its strategy, the inflexion points and potential risks in a raise. Those plans are informed by the knowledge base we have built and maintain in our CRM database.

Once a detailed plan is in place, we use technology to measure our effectiveness as we launch a fund – carefully measuring the aspects where we are effective and areas where we are encountering push back.

Finally, we are big believers in transparency with our clients. Each client has access to every conversation that takes place on our global platform. That information, provided in real time, allows for a level of collaboration not available to traditional processes. This means that anybody sitting in Dallas, for example, can see the conversations taking place in London and in Singapore and that same information is available to our clients wherever they sit.

The limitations imposed by the Covid crisis have placed a premium on this level of information share. We are proud that the technology tools we have developed over a decade have positioned Capstone and our clients for success in a uniquely challenging market.

**What risks are associated with a digital fundraising process? And how can these be mitigated?**

The biggest risks lie in the areas that technology can't help us with. For LPs, in this environment, there are risks associated with making decisions on long-term relationships without in-person interactions.

The interpersonal connections that are so important in private equity where an underwriting decision starts a 10-year relationship, losing that interpersonal piece brings risk with it. We're trying to apply our tools to mitigate that as much as possible.

For GPs, the risk is a bit different. I think it puts an even finer point on great execution. If a mistake is made in fundraising execution, if there's a step back from the market, if fundraising slows down, it's much harder to recover, even though the communication and analytical tools are better now.

In this market, everything is accelerated; underwritings are occurring faster, decisions are being made to move on or proceed with another opportunity, so the margin for error for GPs is much smaller.

**How will technology transform the fundraising process in the long term? Has Covid-19 accelerated this evolution?**

When technology is used best in our business it removes inefficiencies (sitting on airplanes, etc), and creates space for the more meaningful activities to take place and I think that will survive.

For example, in annual meeting season, there will be questions around whether people's time is best served sitting in a room watching a presentation with 50 or 100 other LPs, which isn't really more value add than watching a presentation via Zoom.

But, having one on one conversations with managers and other LPs is clearly value add and different to sitting on Zoom presentations.

Pre-Covid, we spent a significant amount of time on introductory meetings and traveling to meet investors for the first time to get a sense where interest may lie. I think these tools may allow us to be more efficient on that front end.

Again, with less time spent on marginally impactful activities, the industry will hopefully refocus its energy on the most impactful, highest value add pursuits. •