How the COVID-19 Disruption Is Improving Fundraising Processes

New ways of working have emerged from the disruption of 2020, and these changes are strengthening relationships between investors and fund managers

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How does a people business continue to function in a world where people cannot meet? For many GPs, engagement and dialogue with current and prospective LPs accelerated in the first quarter of 2020. This was true across all alternative asset classes, but nowhere was it more vital than in infrastructure. Investors were attracted to the sector's defensive characteristics and many areas – such as ports, airports, roads, and energy – were perceived as having guaranteed demand and had been financed accordingly.

The closure of physical businesses and social activities prompted myriad questions about what would happen to assets that had never expected such underutilization. Amid the initial fracas, managers scrambled to provide monthly or even semi-monthly updates to their existing investors on the impact of COVID on the investments they were managing. These updates moved almost immediately from teleconference calls to video calls. When the time came to host annual meetings, the transition to virtual meetings was seamless.

In parallel, the usual familiar touchpoints with investors were upended. GPs said 'adieu' to hosting investors for onsite diligence meetings; 'farewell' to well-organized, efficient LP roadshows; and 'auf wiedersehen' to shared conversations in stolen moments at conferences.

New and Improved Working

Amid the changes were the makings of a new – and in many ways, improved – methodology. The inability to hold face-to-face meetings freed up time slots not taken up by travel on either the GP or LP side, creating more opportunities to schedule meetings. What was lost in the lack of physical connection was made up for by more quality interactions, more tailored to the investor's needs and interests.

In a similar fashion, the lack of formal due diligence sessions conducted at the GP's office, lasting anywhere from a half day to a full day, has led to multiple benefits. Zoom onsites are now broken up into separate 'fun-sized,' digestible morsels of 1-2 hours across several days. These can be scheduled over a longer time period, allowing for a less rushed and more thoughtful exercise.

LPs get to meet a greater number of individuals on the GP side, across the investment, asset management, and back-office teams. In addition, a wider contingent of individuals at the LP side, outside of the typical central deal team, can get exposure to the GP via these video onsites. This facilitates the internal underwriting and consensus building among key stakeholders, and means some of the internal deliberations that would otherwise only be conducted at investment committee meetings can occur earlier in the process.

Deeper and Richer Information

Investors are complementing the use of video conference calls in their analyses of managers by going deeper in their desktop due diligence. GPs have responded by widening the scope of the standard diligence materials they put into the data room. LPs, now more than ever, make full use of the documents afforded to them, but are also making more bespoke detailed diligence requests of the manager. Separate operational due diligence document requests have emerged, as have calls to assess the soundness of the organization over and above the commercial attractiveness of any single fund offering.

LPs continue to systematically make calls to all contacts on the standard referee list provided by GPs, but are increasingly asking for additional names outside of this list. The biggest change we have seen is the systematic use of offline references taken by investors, utilizing their collective network to get different perspectives on a GP and a well-rounded view of the team members. In this way, LPs are fully leveraging their dependable contacts to help bridge the trust gaps, whether big or small, that would otherwise be crossed by spending considerable periods of time in a room meeting with GPs.

The Changing Nature of Support

As GPs and LPs adapted their methodology, so did their placement agents. In some cases, this means doing more of what they did before; for example, taking the burden off their clients' shoulders and assisting with the completion of enlarged due diligence requests from investors. If GPs' interactions with LPs are no longer constrained by travel distance and time, placement agents with global offices can maximize the geographic LP audience for any fund offering. It has never been easier for European GPs to spend time with investors in North America and Asia to develop and deepen their relationships.

Where the placement agent is helping manage a fundraising process, they would often be involved in active dialogue with existing investors. By working alongside GPs, as a second pair of eyes and ears in the LP/GP dynamic, agents can complement investor relationships. This opens valuable back channel communication flows to GPs and ensures subtle messaging from LPs is properly understood so it can be addressed – a key resource in a difficult fundraising environment.

As in previous times of economic uncertainty, investors' allocations and investment preferences can pivot suddenly. Experienced placement agents that have established relationships with these investors can assist their clients and make sure that LPs have access to the relevant opportunities. As feedback cycles become more condensed, capturing LP feedback in a timely fashion can make all the difference in a fundraising process, especially if it entails a shift in fundraising strategy for a GP.

Stronger Relationships Ahead

With the investment landscape in a state of flux, frequent, detailed, and tailored communication is the key to a harmonious relationship between the LP and GP. As the world returns to some semblance of normality and face-to-face meetings become possible, new ways of working – combining the best of physical meetings with virtual meetings – will remain common practice. This will be good news for investors, fund managers, and all stakeholders.

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