# It's Not You...It's Me: The Reasons Why LPs Won't Commit

Fundraising is a maddening process for all but a few firms. Let's call that latter group the 'one-percenters': the elite who announce their fundraising plans at their annual meetings, send out an email the following day with a PPM and an LPA, and tell their LPs they have 60 days (or less) to complete their work. The world comes to them – no schlepping briefcases full of pitchbooks across the country and globe.

For everyone else, it is scores of meetings, delayed flights and late arrivals at Marriotts and Hiltons when you're lucky, or $600/night 1950s-era motor inns in Menlo Park with plastic-encased mattresses when you're not so lucky. You have early-morning breakfast buffets with powdered eggs and grease-coagulated bacon. You tell the same story over and over in one-hour segments, until you feel like you're caught in a time loop, much like Bill Murray was in the movie Groundhog Day.

Sure, most meetings feel like they went well. The LP was engaged, took copious notes, asked penetrating questions and closed with asking about the timeline for the fundraise. You send a thoughtful thank-you note – the LP responds, saying how nice it was to meet you, and that she will discuss internally and get back to you. All good. And then, the trail goes cold. Emails and voicemails go unreturned. Maybe a note back saying "we would like to see you develop the portfolio so let's stay in touch for the next fund." Placement agents typically can elicit more candid feedback from LPs, or at least can divine the meaning behind the canned turndown rationales.

For example, recently we were doing a fundraising post-mortem for a client – i.e. how many meetings held, how many LPs converted from meetings to accessing the data room, how many came for on-site


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diligence, how many committed and, also, how many declined and for what reason. A small percentage of LPs declined because of issues with performance. Another small percentage declined because of team transition issues. However, over 70% of LPs that declined cited "internal reasons," such as allocation issues, a full re-up pipeline or, my favourite, "not a portfolio fit." In other words, it was the classic "it's not you...it's me."

What is a GP to make of all this? Certainly, no firm nor fund is perfect. All have some form of hair – I guess it's a matter of whether the LP community sees it as just as an acceptable amount of five o'clock shadow, or do you strongly resemble Billy Gibbons of ZZ Top? Let's try to parse through the noise and get to the real reasons behind the declines.

**Allocation Issues** – The LP has been making private equity commitments for many years with middling success. Some top-quartile funds, some not-so-top-quartile funds, a bunch of capital called, limited distributions. The private equity portfolio manager's bonus last year was below plan. The CIO is recommending a shift to secondaries. She's not convinced your offering is any better than what she has and is thinking about updating her LinkedIn profile.

**Team Dynamics and Succession** – The founders have a decent track record, but a lot of time has passed and the LP isn't convinced that they're still as motivated and engaged. A quick Google search turns up the founders' private planes, houses in Aspen and Jackson Hole, and a constant feed of vacation pictures, and the LP starts to think that maybe they've achieved pretty much everything they set out to do – and questions their drive. The next generation is unproven, even if they do seem to work hard.

**Track Record Issues** – Sure, you've got a few winners, but also a donut, and a lot of wobbly deals held at questionable valuations that seem to increase quarter to quarter with the sole purpose of assuring your returns remain in the top quartile of your vintage. Even with that, a PME calculation shows your returns lagging 500 basis points below most index funds.

**Cannot Make Fundraise Timeline** – The LP has a full re-up pipeline that can easily absorb their annual allocation. He also has some funds he's been following where he hopes to get allocation - and he'd rather hang around the hoop on those than spend time working on your fund. Even if you're in market for two years, he just can't make that timing work.

**First-Time Fund Issues** – Though research shows that Funds I and II tend to outperform, that same research also shows those same funds fail more frequently. The LP is not rewarded for taking risk but could be fired for it, so why should she take it? Plus, they take a lot of work to underwrite.

**Sector Focus Not a Fit** – If you're a generalist fund, this means the LP wants to invest in a sector fund. If you're a sector fund, this means the LP wants to invest in a generalist fund. This feedback often comes from the same LP at the same time, depending on your strategy.

**Unresponsive** – LPs are busy and, like most people, they do not like to convey bad news. Easier to stay radio silent than communicate a turndown because your fund strategy/returns/team do not rise to the level of moving into diligence.

With such structural headwinds in place, GPs (in many cases with the help of their agent) must carefully consider the fundraising strategy, pre-launch. Where are the existing investors? Who are my potential first-movers among new LPs? What support from my best relationships do I need locked down before approaching new names? What are the potential holes in the story I need to plug before evangelizing it? Every fundraise needs a plan, then careful monitoring on the pulse of the fundraise, and course correction when required. The fundraising world is built to reject you. Planning for that rejection is the first step towards joining the one-percenters.

My recommendation to GPs is not to take any of this rejection personally. After all, it's not you…it's me.

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