GETTING TO YES

Advice and strategies for PE managers on how to impress, excite and engage investors to reach a final close.

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i. About the Authors

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Graeme spent 15 years of his career at SL Capital Partners, a European-based Private Equity Fund of Funds, responsible for making private equity fund investments and direct co-investments throughout Europe and North America.

At eVestment, Graeme is responsible for leading product strategy of eVestment’s private markets performance analytics solution, which is used by leading private fund managers and institutional investors globally.

Benjamin Ball, Founder, Benjamin Ball Associates

Ben and his team advise private equity fund managers how to present themselves to investors to increase pitch win rates. They also add value by polishing portfolio companies when pitching to potential buyers.

Clients Benjamin Ball Associates work with include Permira, Sovereign Capital and Frog Capital as well as major corporations in Europe and the Middle East.
ii. Introduction

On the surface, conditions look favorable for private fund managers. The asset class is benefiting from past years’ record distributions increasing investor interest and consequently allocations, resulting in an upward trend for fundraising figures. Annual fundraising across private markets reached $748 billion in 2017 according to McKinsey analysis\(^1\). Yet not all funds have benefited equally from this influx of LP capital.

In recent years, LPs may have been eager to increase allocations, but have been selective over who and where they are committing capital and are favoring fewer GP relationships. In 2017, mega-funds (>-$5bn funds) gathered 15% of all capital raised for private markets funds in the US, up from 7% in 2016\(^1\).

Even top quartile managers may face a tougher fundraise. With the persistence of returns dropping since 2001\(^2\) – less than 20% of funds raised after 2001 that were a successor to a top quartile fund have repeated this level of performance – LPs are approaching all investment decisions, even re-ups, with a heightened level of scrutiny. These challenging market conditions are why it has never been more important to re-evaluate your investor relations strategies and pitches to ensure you are communicating your value clearly and effectively.

Granted, a well-delivered presentation won’t necessarily make investors sign a commitment then and there, but it will help you influence their decision and move discussions on to the next stage. Your initial meeting with an investor is like a first date. You have just one objective: to get a second date. If that goes well, then you get a third date. Eventually, you build a relationship that can lead to commitment and, potentially, that precious ‘yes’ from your investor.

In contrast, a bad pitch or meeting can have significant impact on investors’ perception of your firm and derail any further conversations.

In this guide, eVestment and Benjamin Ball Associates share some essential tips and techniques based on years of experience in both advising PE firms on fundraising, investor pitches and presentations, and being on the receiving end of them as an institutional investor. Read on to find out how to take your pitch to the next level and become even more persuasive with potential investors.

\(^1\) McKinsey, Global Private Markets Report 2018
\(^2\) McKinsey, Global Private Markets Report 2017
\(^3\) Probitas Partners, Private Equity Institutional Investor Trends for 2016
1. Preparing Your Pitch

**Deliver a well-crafted investment case that tells your story**

The starting point – your pitch book. An important tool to communicate your firm’s values, strategy and expertise to LPs. But as they say, you only get one chance at a first impression and the pitch book plays a large part in this.

When LPs are asked what they want from a pitch book, you would be surprised how often the answers are simplicity, clarity and brevity. Yet too many managers struggle to convince as their pitch books are lengthy, unfocused and not investor-friendly.

Creating a succinct, compelling pitch is not easy – it’s actually much harder than preparing one that’s long and detailed.

When you approach investors for the first time, you want them to get the best impression of you and your fund. That means working hard to get your pitch book in the best shape possible.

Check if your pitch book is ready by answering these simple questions:

1. Do you grab attention on the first two pages?
2. Is there a strong story – a narrative – that runs through the book?
3. Are you telling or showing? It’s more powerful to demonstrate than to tell.
5. Is it obvious why they should consider you to manage their money?
6. Is your pitch book as easy to read as a newspaper?

These are the first things that should be checked on every pitch book, to test for investor-readiness.

**Effectively Communicating Your Performance**

Once you’ve decided on the structure, format and high-level content that will be included in your documents or pitch, it’s time to address performance.

The omnipresent disclaimer in the investment world is: “Past performance does not guarantee future results. You should not rely on any past performance as a guarantee of future investment performance.” However, within private equity, investors know that the performance of past funds is a critical component of the manager selection process. In fact, in a 2018 eVestment recent study, track record ranked as one of the top three extremely important factors in LP’s due diligence. Past performance matters to LPs because they want to understand the risk associated with investing with you – has performance been bolstered by one or two big wins and is this repeatable? Or maybe leverage played a big part in generating your returns? There’s a risk that’s not repeatable if the cost of capital increases.
As such, when communicating your performance it is critical to share more than just high-level performance numbers, such as IRR and TVPI. These are important numbers, often used for benchmarking in early selection stages by LPs, but have little meaning by themselves and lack insight. IRRs can be calculated in a number of different ways – zero-based or horizon-based, for example – which affects the validity of the numbers in the LPs’ eyes. Make sure you volunteer an explanation of how these metrics have been calculated.

Also important is to show how you and your team created that performance – offer up information on your deal-sourcing process, how the spread of deals has affected performance and how value was added to the portfolio companies. Using clear, well-designed graphs and charts can help investors digest this information a lot easier to aid your influence.
Increase impact with props, visual aids and handouts

A great pitch meeting rarely involves a fund team talking though their PowerPoint. Few people in this world want to be subjected to a page-by-page narration of a document they have already seen.

Here are three ideas you can try for better pitch meetings:

1. Distinguish between your handout (something to be read at a desk) and something used as a visual aid in the meeting – they should be as different as a book and a movie. The old idea of having a PowerPoint multi-tool that can be used as a handout, a visual aid and then as slides in a conference talk is long dead.

2. Use props that bring your stories to life. For example, have you invested in companies with tangible products? Over the years PE firms have used props as diverse as raw diamonds, aircraft models and balsamic vinegar to make their stories stand out.

3. Try using a Presentation-On-A-Page™: get your entire pitch onto one sheet of paper and have that page on the table in front of you. Then, spend your time talking directly to your future business partners, rather than narrating a presentation.

How you run your meeting will show the investor what it is like working with you. So choose your props and visual aids carefully. Investors may not remember exactly what you told them, but they will remember how you made them feel.
Look at yourself like an investor

Once you’ve pulled together a first draft of your pitch, you should review it with a critical eye. Put yourself in the LPs’ shoes: What questions would they have about the pitch? What areas would they want to investigate further and know more information about? Look deeper into your own performance rather than just high-level metrics. Gain data on areas such as:

**Deal Attribution**

Are a small number of team members bringing in the top-performing deals? If so, this could form details around key man clauses in the Limited Partner Agreement and you should be prepared to answer questions about it from investors.

**Public Market Equivalent**

An LP may use a third-party benchmark to evaluate your performance, but an increasing number are comparing PE funds’ performance to the public markets. As the industry grows and matures, CIOs want to evaluate PE on a similar basis to how they evaluate other asset classes. An LP investor then needs to understand your performance in relation to a range of indices.

**Market Timing**

Were there times when you were particularly active or inactive and how do these compare with the wider market? Were you paying higher multiples or lower multiples at different points in the cycle?

Tailor your pitch

A common frustration of LPs is to hear fund managers deliver a standard pitch. Nobody enjoys being sold to. Remember that your only objective from the first meeting is to get a second meeting. That means that your investor should be the center of attention.

So do your research. Which of your peers or competitors is this LP invested with? What recent commitments, or changes to their investment strategy, have they made? What is their commitment pacing plan? How have past fund investments performed?

When you know as much as possible about the people on the other side of the table, you can have a proper conversation, rather than just running through a one-size-fits-all pitch.

eVestment’s Private Markets provides fund managers with the ability to gather this information, and more, from one location. eVestment’s searchable database of investors, consultants and more than 16,000 documents from investment meetings helps investor relations teams:

- Make LP research and prospecting more efficient.
- Uncover actionable intelligence not available elsewhere.
- Enhance their competitor intelligence
- Keep up-to-date with allocation changes, pacing plans, and manager search processes through email alerts.

[LEARN MORE]
2. Delivering Your Pitch

How you say it is as important as what you say

LPs frequently tell us that if the delivery isn’t passionate and the team doesn’t come across as a team, then nothing will convince them to invest.

In addition, research by Professor Amy Cuddy at HBS showed that in successful investor pitches, likability is equally important as credibility\(^5\). After all, the LPs are judging whether or not they want to partner with you for decades. One method to review your delivery is to film yourself. To come across as more likeable may be as simple as smiling a bit more, asking more questions, being more animated in your conversation, using shorter sentences or maintaining better eye contact.

Address the issues

The job of an investor is to be critical and search for potential issues so he or she can make a long-term financial decision. Did you know that 75% of investors will recalculate fund manager performance?\(^6\) This is not done through distrust, but to ensure their due diligence is thorough in order to meet their fiduciary responsibility. It’s no different than the level of due diligence you, a fund manager, would carry out on a potential acquisition. That’s why it’s important to welcome challenging questions and answer them calmly and comprehensively.

Identify potential questions that may be asked and rehearse your responses, focusing particularly on the tougher ones. Think of how CEOs of public companies handle analysts’ questions – PE can learn from the public markets to understand how to deal confidently with difficult questions from the most challenging investors.

Honesty really is the best policy

Because successful fundraising requires trust and integrity, you need to be completely open and clear with your potential investors. If you have valid reasons to exclude bad deals from your portfolio, or calculate performance using a certain methodology, then be explicit about why – don’t hide the fact in a footnote or an appendix. If it looks like you’re trying to cover it up, then this can make the investor question what else you might be hiding, resulting in a lack of trust and potentially irreparable damage to your relationship.

In fact, admitting to weaknesses can be powerful. First, it shows self-awareness. Second, if you are willing to admit to your weaknesses, then you are more likely to be credible when you talk about your strengths. When managing a fund, you’re running a business and – in all businesses – nothing is perfect all the time. Acknowledging this will demonstrate that you are a business-minded professional.

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\(^5\) Amy Cuddy, Presence, 2016  
\(^6\) eVestment, 2017 Private Markets Investor & Consultant Due Diligence Trends Report
3. The Follow-Up

Judge their engagement

How do you use the end of the meeting to establish whether the investor is interested and agree to next steps? Some LPs find it hard to say “no” immediately. But for you, the GP, “no” is the second best answer you could get, as it frees you up to focus on your priority investors.

Some carefully directed questions can help clarify the investors’ position, such as:

- Does this fit your current portfolio?
- What will be the next step?
- If you did want to invest, what is your process?

They said no, what next?

After running countless meetings and providing vast amounts of information, it may be frustrating to hear a “no” from an investor, but remember this is a long game and it’s important not to pressure or pester investors nor try to rush the process. Nor should you instantly cut all communications with the investor. Their strategies and requirements may change over time and better align with your firm’s offering in the future. What you should do is keep communication lines open and be patient.

To foster relationships and keep top of mind with LPs, some GPs invite investors to their AGM to help them get to know the organization better. While LPs may track GPs through a few funding cycles before committing in order to get an insight into their long-term behavior, don’t be afraid to be proactive. For example, you could set up a quarterly newsletter to share updates on your firm and portfolio companies along with your own insights into your specific market and strategy. Executed well, this will help to build your brand and keep it top of mind with LPs to ensure they remember you next time you’re fundraising.
4. In Summary

Fundraising figures are at a record high but raising capital is not easy for all private markets managers. While private markets funds are becoming a larger piece of institutional investors’ allocation due to record distributions, LPs are being more discerning about where capital is placed and are consolidating their number of GP relationships. Larger commitments to fewer managers is a burgeoning trend.

With larger allocations also comes larger risk, and so LPs are putting all fund investment decisions under the microscope. They are delving deeper than ever before to better understand what the manager can bring to the table in terms of future performance. To maintain existing and develop new relationships, you need to make significant adjustments to your investor relations and fundraising meetings.

You need to:

**Be more prepared than ever before**

Do your research. Understand the institution and tailor your pitches to that. Don’t bombard them with information or simply use a stock pitch to all investors.

Prior to the first meeting, identify the parts of your past performance or events within your firm that may raise a flag for investors to ask about. Prepare answers and think about how you can alleviate their concerns.

Think past the pitch book and slideshow. What can you bring to the meeting to back up you story, effectively communicate your value and make a lasting impact? Maybe it’s a video case study of a portfolio company, perhaps it’s physical props.

Think past the data you are presenting, and consider how you are presenting it. Is it being presented with passion and excitement? This will reflect on to how engaged and interested your investors are about the meeting.

**Build Trust**

Don’t be cautious of oversharing — investors want and expect more information than ever before, whether that’s past performance, team dynamics, or future strategy.

Don’t try to hide anything — if performance metrics, like IRR, have been calculated in a specific way, let investors know that. Or, if you have excluded certain deals for a reason, let them know. If you don’t and they choose to re-work your performance, which they most likely will, the metrics will not add up, leading to suspicion as to why and what else you could be covering up. This will damage trust — the foundation to successful investor relations.

**Neither Rush Nor Ignore**

Not every investor meeting will lead to a follow-up. It may be that your strategy is simply not the right fit for them. "No" is not always a bad answer — don’t try to turn it into a yes if the fit is not there. Instead, think about long-term communication strategies you can implement to build your brand, continue relationships and keep top of mind. It will only benefit you when it comes to your next fundraise.
About eVestment Private Markets

eVestment, a Nasdaq company, is the leading provider of data and analytics to the institutional investing community, with over 2,000 asset managers, investors and consultants using our solutions.

eVestment Private Markets provide valuable insights into LP market activity and fund performance to aid in managers’ investor relations, fundraising, and internal analysis.

• Easily search for and access US Plans’ manager reviews and strategy materials.

• Gain insight into actionable intelligence on competitors and LPs.

• Efficiently calculate and evaluate your fund performance with industry standard metrics.

• Slice and dice performance in real-time to respond to investors’ requests for information more efficiently.

"By using eVestment we managed to successfully run the fundraising process with a relatively small team. We closed it in six months and eVestment was very helpful in making it as efficient as possible."

Michael Hachar,
Investor Relations Manager,
Equistone Partners Europe

About Benjamin Ball Associates

Benjamin Ball Associates prepares teams for investor presentations. We work with private equity funds such as Permira, Sovereign Capital and Frog Capital for fundraising, investor days and portfolio company sales.

Our knowledge of the private equity sector combined with our expertise in presentation coaching, pitch polishing and investor role play helps our clients secure funding.

"The new presentation properly represents the institutional quality of our fund. It has been a step change for us."

Erwin de Klein, Head of IR, Saemor Capital

"Moved our presentation into a different league and undoubtedly improved the outcome and offer we received."

Liz Warner, CEO, Betty TV

Find out more at www.evestment.com/privatemarkets

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