Fundraising Interview - Giacomo Biondi Morra di Belforte, Capstone Partners

How can infrastructure managers stand out in a crowded fundraising market?

Over the last 10 years, infrastructure has emerged as an asset class of its own. Its unique characteristics and the benefits provided to its investors have given birth to a fast-growing group of managers competing for continually increasing allocations. In our opinion, the dynamics are favourable to the emergence of new infrastructure managers. However, as investors have become more selective over the years, managers need to further differentiate themselves.

In order to stand out in a crowded fundraising market, the manager has to be able to clearly express its competitive advantages. How unique is your deal flow? Do you have special negotiating skills? Are you particularly good at identifying good platform assets and combining them to create sector leaders? Are your relationships with the local authorities strong? Is operational enhancement a key part of your value-add? Do you have a track record in obtaining financing from banks and capital markets? These are questions that need to be answered in a clear and concise manner for investors to understand the competitive advantages of the manager.

What are investors' main concerns about the infrastructure market at present?

Regarding fundraising, the infrastructure investment theme has shaped rapidly over the last decade into a real asset class attracting substantial amounts of capital. According to Preqin's data, unlisted infrastructure funds closed in 2013 raised $44bn, compared to $30bn in 2012. While the balance between committed and distributed capital is tilted towards the former, distributions have picked up quite substantially. As investors have not yet reached their target allocation, the difference is still being covered by the additional capital being committed to the asset class. In parallel, Preqin shows dry powder standing at an all-time-high of $107bn as of October 2014. A rising investor concern is whether there are too many dollars chasing too few deals. The ability to source proprietary deal flow at attractive prices is a true differentiator.

In addition to the capital raised by unlisted funds, some institutional investors invest directly in infrastructure deals. The combined flow of capital seeking suitable investment opportunities is driving up brownfield asset prices which will negatively impact expected returns. This is particularly true for mature markets such as the UK. Hence, investors' main concerns about the asset class presently lie both in the availability of new investment opportunities and in the inflation of these assets' prices.

Are there particular regions or sectors of particular interest to infrastructure investors at present?

Investor appetite for infrastructure has traditionally been directed mainly towards Western markets, with Northern Europe and North America as the main focus of attention. However, a mix of evolving regulations and awareness has now quickly expanded the opportunity set to Southern and Central Europe, Asia and now Africa. Sub-Saharan Africa appears as the "last frontier", with investors' awareness of growth potential progressively exceeding concerns about risk. Generalist brownfield funds still attract the bulk of the capital. Region- or country-focused products, as well as credit vehicles, are also now gaining strong traction. In general, investors still favour Western geographies, mainly because of geopolitical stability, sizeable economies and suitable regulatory frameworks. From a sector standpoint, given the boom in the energy sector, energy infrastructure is a rapidly accelerating area of interest.

As the industry matures, in addition to commitments to generalist and global funds, we expect investors to seek out more niche products to diversify their portfolio and access new sectors and geographies. Like all other alternative asset classes, the infrastructure sector will likely evolve like private equity in general, with established larger generalist funds and more specialized offerings.

How do you define a successful fundraise?

A successful fundraise accomplishes several important goals at once. The main objective is to secure capital commitments to allow a manager to execute on its planned investment strategy. In parallel, it also enables the manager to build a long-term, trusting and supportive investor base, balanced across investor types and geographies, which will support the manager over multiple funds.

Depending on the fund size, it should include investors from multiple continents that are regarded as leaders by their peers, and that can act as references for the manager. Some measure success by the speed of a fundraise and number of closes, but an extended fundraise that hits target with a good set of investors should also be considered a success even though it took more time to close. To maximize the chances of success, great care must be taken to execute a well-orchestrated global fundraising effort with clear objectives.

How can a first-time fund manager execute a successful fundraise?

If investors feel strongly about a macro opportunity and they cannot access it through mature platforms, first-time managers

become their only choice. The first step is to take a hard look in the mirror and decide if the raw material exists to successfully complete a fundraise. It is essential to ascertain the right positioning. Is there a good match between a clearly identified, attractive market opportunity and your actual skill set? Is your investment strategy clearly defined and focused, or is it too vague or too broad? Have your team members worked together in the past? Is your track record relevant to your strategy and positioning? Do you have attribution? If not, do you have some demonstrable proxy for your team's ability to generate attractive returns? How sustainably different is your deal flow? Is your interest aligned with limited partners?

Investors are attracted to experienced teams targeting a well-defined and appealing opportunity. When the team invests its own personal capital, it demonstrates a strong alignment between the manager and investors, and will help limited partners accept the first-time nature of a new venture. Incentives for investors to commit at first closing can also be helpful (such as deals already in portfolio, management fee rebate, co-investment rights, stapled transactions). If you can secure a few anchor investors in a first closing and already provide access to the first investments, it will make your proposal more interesting to the investor community.

If key components of the story are missing, the manager needs to find different ways to do deals outside of a fund structure, either by using non-committed capital from friends and family or other relationships or as an equity-in-kind contributor partnering with an experienced manager to establish a proven track record of successfully sourcing, managing and exiting investments.

How do you build momentum during the fundraise?

Knowing who will be the key supporters and how much capital they could commit in the upcoming first closing is invaluable and probably one of the most important elements to build momentum. It achieves the multiple goals of reducing risk, increasing certainty, and ultimately providing third-party validation of the manager's credibility. We usually consider that momentum can be generated if we can cross the threshold of 50% of the fund size target in a first closing. However, if a deal is to be done in the fund, a first close can be made at a smaller number, since having a portfolio company in the fund can spark momentum.

Raising capital has truly become a global exercise by default. Diversification is paramount in building a resilient and scalable investor base, because over-reliance on one investor type or geography can cause vulnerability. The main objective of a bespoke investor relations program, beyond serving existing investors, is therefore to increase visibility on prospective investor appetite for the manager's subsequent offering.

When should fund managers start engaging with investors?

Most GPs have come to the realization that capital raising never stops. As this market is competitive, it is critical to be engaging with prospective investors before, during and after the capital raise. Staying in touch outside a formal fundraise provides many benefits to both parties. Regular contact enables managers to build a long-term, trusting relationship with investors, and to be integrated in their upcoming investment plans. Managers should also take the opportunity to absorb investors' feedback, appetite and concerns in order to fine-tune their positioning and documentation. For investors, regular contact allows them to keep track of the manager and anticipate its return to the market, as well as to generate co-investment or secondary opportunities. Knowing more about each other further reduces the uncertainty of a fundraise as investors can plan the next fund early on, providing increased visibility on market appetite and optimal timing to the manager.

How and when should an investor address issues? How can they mitigate them?

There are very few "perfect" managers, if such a concept actually exists. Every firm has issues, some more challenging than others. Investors are sophisticated professionals that will discover the issues during their due diligence. Transparency is key in building trust and is the foundation of a fruitful long-term partnership with investors. By being transparent you establish credibility with limited partners and you have the ability to position the issue versus reacting and/or sounding defensive. Discovery of an undisclosed issue is often a deal killer.

How important is fund marketing documentation?

In an ever increasingly competitive market, it is important for managers to develop an institutional message which needs to be consistent, both in content and layout, throughout its documentation. Beyond documentation, coherent communication is paramount. The positioning and the manager's competitive advantages have to be consistently expressed throughout all forms of communication: executive summary, pitch book, private placement memorandum, due diligence questionnaire, data room, website, press releases, industry papers, articles, interviews, speaking opportunities. It is about building a brand. Industry players have to clearly associate the manager's brand to a specific positioning and area of expertise.

How do you decide which firms to work with?

Capstone Partners focuses on quality. We advise established funds and emerging managers in all types of strategies and geographies. We are constantly interacting with limited partners, and as a result, have a good sense of what strategies and geographies are of interest to them. As we look at a particular fund, we conduct diligence similar to what limited partners do in an effort to determine the quality of the offering. Our primary areas of focus are team, differentiation of the strategy, alignment of interests and ability to replicate a good track record. Our decision to take on a mandate is similar to an investor committing to a fund, as our time is our capital.

Capstone Partners

Founded in 2001, **Capstone Partners** is a leading independent placement agent focused on raising capital for private equity, credit, real assets and infrastructure firms from around the world.

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