Raising Capital

Since 2008, raising capital for a hedge fund or private equity fund has become very difficult. In the case of some would be institutional or family office investors, it has always been difficult.

Especially in the backwaters of capital. The marketer is an eternal optimist. He actually believes that the investor is interested in what he has to say, that the investor understands what he has to say, that the investor understands English, basic finance, and intends to make money through investing. These are strong assumptions individually but taken together, compound the capital raising problem.

Marketers should always begin with the first principle, which is to first do no harm. The marketer has to therefore believe in his own product. He has to understand his product inside out, and most importantly, from all the possible angles and perspectives of his target investor audience. Thus armed with conviction and understanding, the marketer has to take his product to the investor.

This is easier done than one might expect. Many investors will take a meeting quite easily. Beware these investors. They are often time wasters. The investors who have no time to waste have little time for your product. The more difficult it is to get a meeting, the more serious the prospect once you get in front of them. Alas, just because an investor is difficult to pin down doesn't mean that they are a good prospect. Good prospects are hard to pin down.

The first meeting is important. It is here that many a deal is closed. There is a class of emotional or recreational investors who will invest on first impressions. If one is lucky, the impression of the marketer will be sufficient to close a deal in the absence of the investment professionals. Madoff was a case in point. He never met any of his end investors yet managed to, through his hapless intermediaries, raise billions in capital.

Do you send material ahead of the meeting? Of course you do. The interested and diligent investor will read this material in preparation for the meeting. If you are lucky. The bored and mischievous investor will read it in even more detail so as to make the marketer's experience at the first meeting one he will not forget for a long time. We can discuss the quality and how to put together an investment presentation in another post.

Always be formal and professional at the first meeting. The marketer may know your boss. Very often, buy side professionals will not do the courtesy of dressing up to meet the marketer. This is a mistake. Back to the marketer. Always be formal and professional at the first meeting. Investors, like all children, are very impressed by packaging. A suit and tie are required. In my experience as a buy side investor, I have always trusted the bedraggled informally dressed and the hapless and held my guard firmly up when faced with a 'suit'. Never mind. Play it safe, wear the suit. In Asia, business cards are delivered with both hands. This is a tradition to demonstrate that one's hands were fully tied up and not fumbling for the dagger in the back pocket. Your counterparty will also deliver their card with both hands, if you are lucky. The more intransigent investor will not offer you a card at all. Ask for one. You may never get the chance to spam this person's email inbox ever again so make sure you get his card.

Sit down.

Never assume that the investor before you knows what you are talking about. At the same time, asking if they know what a CDO means will insult them. You need to surreptitiously explain what you are going on about while convincing the investor that you had absolutely no clue that they have absolutely no clue what everyone is talking about. Explain the investment opportunity, the investment strategy, the history of the firm and its people, and why you think this is the best investment since free lands have been expropriated from poorly armed indigenous peoples.

Some investors will attempt to demonstrate how much smarter they are than you. Let them. If you don’t you will not close the trade. Don’t just sit there and take it, engage them. This shows respect. Don’t argue. This shows disrespect. And don’t patronize. That’s just rude. After some polite sparring, make sure you lose the argument. If you actually agree with the said investor, you need a reality check when you get back to your hotel. Take notes.

Some investors will disagree with everything you say. And I mean everything. Agreeing with them will not make them stop or help the situation. You can quickly gauge if the investor simply doesn’t make these types of investments or doesn’t like you hairstyle. Don’t leave too early, use up at least 40 minutes, then take your leave politely. Before you go, use the time to find out all you can about the investor, their likes and dislikes, what they’ve invested in before. You might be able to send a less hirsute colleague next time around.

If an investor is interested, you’ll know. The questions they ask will telegraph their intentions. An interested investor does not a trade make. There are other considerations and hurdles to clear.

Have you ever wondered why that investor who was so terribly interested in your investment product and who knew the strategy and the market inside out, and who knew all the players in the industry and who asked you to send due diligence material and who said they would follow up suddenly falls silent? Sometimes these are smart junior people whose voice on the investment team or committee is simply not sufficiently loud, and they know it. Sometimes they are smart senior people who answer to an investment committee or have a process and simply do not have the discretion or authority to make an investment.

In some markets, the people who have the authority to make investment decisions are simply too busy, or too intelligent, to make those decisions. It is common to find that a professional investment team has been hired to assess investments which they then bring to a committee of 'wise old men' with the ultimate authority to pull the trigger. These wise men have built their careers outside of the investment industry, either in business or politics and often both, at the same time. You get the type. They don't trust their investment team, being old and wise. Unfortunately, they don't even trust themselves, being at least wise enough to know that their experience and expertise lie elsewhere. The result is that these wise men only invest in brand names. Their highly intelligent investment teams will have been conditioned to the likes and dislikes of their masters. They will only seriously propose brand names to their masters. Every so often, a niche, intelligent, under-researched, glaring opportunity will pass through the desks of some hapless investment analyst. They may choose to escalate this to their investment committees. This is rare.

Marketers faced with a prevaricating, delaying, unresponsive investor should not be discouraged. Its not you, its them. It likely that the investor you face is a professional gatekeeper with limited discretionary powers, with a committee to answer to, a committee comprising very wise old men, who don't fully trust their abilities or judgment, and who think that because they're themselves not experts in investment, they should invest with a reputable big brand name. That's why its so important to build a brand. Marketers faced with these types of investors should not be discouraged. They should move on. Either to a more suitable investor, or to a fund manager with a brand name. And so real talent never really makes it to the masses, institutional or otherwise. And well it should be. It just serves everybody right.