Nina Lesavoy Talks PE Fundraising

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IDD recently sat down for a chat with Nina Lesavoy, managing director and founder of Avec Capital, an affiliate of New York alternative assets advisory firm XT Capital Partners, to discuss the business of private equity fundraising amidst one of the buyout industry's toughest acquisition markets.

Lesavoy, a 20-year investment management professional and fundraising advisor, is hardly a stranger to the private finance world. Her network of contacts in the institutional investment is extensive. For instance, she counts top investment officers like Jay Fewel, director of investment at the Oregon Investment Council, and Lawrence Kochard, chief investment officer of Georgetown University, as friends in the industry.

It was as the former head of sales and client service at Chancellor Capital, which later became LGT Asset Management, from 1986 to 1998 where the charismatic Lesavoy developed far-reaching relations in the pension and endowment world as well as honed her knowledge of financial products.

Nina Lesavoy

In 1998, she joined Invesco as a director with responsibility for its institutional Internet strategy along with marketing, which has proven handy when it comes to selling a fund's strategy to institutional investors.

After a stint at Investor Force, Lesavoy co-founded Cue Capital, a New York strategic fundraising firm, in 2003. It was there that she helped New York private equity firm Symphony Capital secure $315 million in commitments for its debut fund that closed in December 2004, raising capital from a mix of institutional clients including endowments, foundations and a pension fund.

At the beginning of 2008, Lesavoy took her next entrepreneurial plunge with the launch of alternative asset advisory firm Avec Capital, where she works mostly with lower to middle-market private equity funds.

A New York City native and Duke University graduate who's described as positive and very engaging by those who know her, Lesavoy isn't just private equity industry-connected. She's been involved in various social causes, including an active board position on inner city youth empowerment organization New Heights. Extracurricular activities aside, Lesavoy's passion about the private equity fundraising business is well summed up in her own words: "The people are smart and, whether it's the funds or the investors, it's a marvelous business to be in."

Following are excerpts of our conversation:

IDD: The private equity fundraising market was brisk last year. How did the funds with good, but not necessarily spectacular, return performance handle meeting their fundraising targets?

Lesavoy: Well, first of all last year was a very exciting time. There was so much money raised. A lot of the money raised last year went into larger buyouts and re-ups and, as a result, the newer, smaller funds had a tougher time. Getting their [investors] attention for your fund, if it wasn't a re-up, was really challenging. It was kind of a double whammy in that not only were you disappointed in terms of the amount of money, but you were also in an environment that looked like the best environment ever.

IDD: How did the credit crunch impact the private equity fundraising business?

Lesavoy: After the credit crunch took place there were people who just didn't know what to do. Some investors that typically would have committed capital held off. There were several examples. That said, I really believe that there are a lot of pockets of money looking for new and differentiated ideas. Interesting investors are now coming in. That was a problem last year because several institutions that typically backed funds were not backing funds.

Let me give you an example: a lot of financial institutions backed small buyout funds and part of their incentive is access to deal flow. And, financial institutions last year, as you know, had to cut back on their commitments. If you were a fund that was raised in 2000 or 1999 when financial institutions were backing a lot of funds, all of a sudden you had a pool of investors that didn't have capital. The bottom line is you're starting with less capital from your existing LPs than you would like.

So, part of the strategy in fundraising is that you really have to have a diversified base of investors. Sometimes people raise money and they aren't thinking about a differentiated pool of investors to prepare themselves for times when maybe a part of that pool isn't as interested.

IDD: Is this fundraising era much different than that of a decade ago and has the fundraising process changed much over the years?

Lesavoy: I think it has changed tremendously. Electronics has helped the fundraising process. A lot of password-protected web sites have been created by the funds so it makes it much easier to do due diligence in advance of a meeting. It has facilitated the process.

There's a search for return that has affected everyone. Corporations need to meet their liability; endowments need to have a certain threshold to keep their status. In the 1990s, the investors that had big appetites were the corporations and pension funds. Now, there are so many high-net-worth individuals and institutions in the US and around the world, and in India and the Middle East. These pools of capital are enormous. The good news for the US funds is they want access [to funds] and they want allocations [to private equity].

IDD: Does that mean the traditional domestic sources of capital for private equity funds are finding it more difficult to reach their allocations as a result of increased competition from foreign sources of capital?

Lesavoy: I don't think they're finding it difficult to reach allocation goals. Institutions that are looking to allocate are looking for really differentiated strategies. So, it's an opportunity for new and different things. This year one of the issues for fundraising is that there haven't been distributions and the markets haven't gone as well. So, their allocations may be a little bit higher than they would like. Typically, to get to your allocation you over commit because it's hard to get the money invested. As you make the commitment it takes time for the funds to draw down the money to get it invested. With an IPO market that is basically shut down you are relying on strategic sales.

IDD: Can you talk about some of the key factors that first-time fund managers should take into account when setting out to raise a fund?

Lesavoy: Yes, and, by the way, I am a huge advocate of first-time funds.

It's very rewarding to raise money for a first-time fund because you really are putting that fund in business. What first time funds really need to think about are the qualities that the individuals bring to the table.

Will it allow them to stay together for multiple funds? Nobody wants to invest the time to do due diligence on a first-time fund if they're not going to be able to commit to fund one, two and three. The team risk is the first big risk for a first time fund. The second is the strategy. Do they have a strategy that they can execute and are there elements of their past that demonstrate they can execute, and is that strategy differentiated?

IDD: What are some common mistakes that first time fund managers make?

Lesavoy: The one I see the most is that a lot of fund managers want to go to their best prospects first. People tend to spend time on prospects that aren't going to materialize because they want them so badly for the recognition of that caliber of investor. What happens is invariably is people want to go to the leading endowments or the leading public pension funds. These are very busy people and they'll take one meeting but not two unless they're interested. You should start with pre-marketing and talking with people who are not even potential investors to be sure that your message is clear, understandable and succinct. I don't think people spend enough time pre-marketing to understand if this is a fund the market has appetite for.

A mistake a lot of funds make, though, is they create a PowerPoint presentation. Everyone has a PowerPoint presentation, but not everybody goes through their presentation. If you have a PowerPoint presentation you have to have a reason to have created it to really guide the discussion.

Another mistake is that the PPM (private placement memorandum) is not consistent with the marketing materials. PPMs are written many times in advance of the marketing materials and not simultaneously. Another mistake is when you bring in outside help, an agent, after the process has already begun. It's

hard to have success because you enter in the process right in the middle. I spend a lot of time with funds on what investors are going to want to know about the strategy and making sure to communicate it properly.

It's really hard to work with potential investors if you don't have a very good understanding of what that investor's process is all about. If it's not consistent with the marketing materials and PPM, it's a problem.

IDD: Are the Wall Street bank private equity units finding it more difficult to raise capital because of the credit crunch and bank write downs?

Lesavoy: It's a very good question because affiliated funds have a real issue to overcome in the market. Unfortunately, there have been several examples of teams that leave the affiliation. So, investors are a little worried about whether they can stay together. The other side effect, though, is affiliated funds come to the table with better capital, which is great, and they also tend to come to the table with a reputation, which is a really good thing for deal flow. If you can demonstrate that you have differentiated deal flow that's a good thing. Those groups who come out of affiliated organizations really have a hard time proving the deal flow had to do with them and not the institution. That's a big question mark for those individuals.

IDD: Does the institutionalization of private equity on Wall Street, where most investment banks have in-house placement agents, present a greater challenge for boutique placement firms?

Lesavoy: No. On the contrary, I think it's a very personal business.

There are going to be firms that really want what the large financial institutions offer and there are other firms that want or need a boutique strategic-partner approach. It's been really good for the industry to have a lot of choices.

IDD: There seems to be an ever-increasing number of specialized private equity funds. I've heard the industry-agnostic or generalist funds are having a much harder time raising money.

Lesavoy: I think any fund that is successful really has to have some type of differentiation. The specialized funds have a leg up because all they do is work in a particular industry and can demonstrate that they're experts in the field. But, my belief is if you have diversification and can prove your expertise and return, you're a fund that people ought to be looking at. You have to think about from an investor's point of view. They have to really add value to their current portfolio. That's why when you're raising funds you really need to not only go to established investors but look for new pools of capital.

IDD: How do corporate bankruptcies and rising default rates play into the fundraising business?

Lesavoy: There are some bankruptcy funds that actually make for a good area of interest. It's going to be a tough environment, but there are some specialized funds that are taking advantage of the opportunity. KPS [Capital Partners], Monomoy [Capital Partners], there are some really good funds out there.

IDD: When it comes to fundraising between middle-market buyout firms and large-tier funds, which are more likely to get allocations in today's fundraising environment?

Lesavoy: A lot of US institutions have made allocations to large buyout funds. Worldwide there is still great opportunity and there are a lot of big buyout brands that are recognizable and that a lot of investors outside the US tend to like. Some investors that have large pools of capital want to co-invest and they see large buyout funds as offering co-investment opportunities. Personally, I've been more involved with the smaller middle-market buyout funds and I think those funds have had better returns over time, but I'm a big believer that fund marketing is global and that there are emerging pools of capital which are not only in the US, but outside the US. That is going to make a tremendous [fundraising] opportunity for funds with differentiated strategies.

IDD: Which constituent, GPs or LPs, has the upper hand in dictating terms right now?

Lesavoy: The established funds have the upper hand; the newer ones really do have to work with the investors. Again, it comes down to the strategy and how compelling it is.

IDD: Can you walk us through the typical fundraising meeting?

Lesavoy: Sure. Typically, investors allocate 45 minutes to an hour for a presentation. It is certainly in the interest of the fund [managers] to get the message of the fund communicated in that time. If it's a fund of interest questions come rapidly and the challenge for the fund manager is answering the questions, as well as getting the message across.

Preparation is really important--you really have to do a lot of work making sure that the message is understandable.

IDD: Can you describe a placement agent's role at an investor meeting with GPs?

Lesavoy: You go with the GP, but it's really the GP's time. You don't present...you're basically there to introduce, to be sure that the message is communicated well and figure if there is a part of the message that isn't understandable, and then to follow up to make sure that's clarified.

The really successful placement agents work strategically with the funds to understand their strategy and help correct what might be misunderstandings.

Obviously, they have close relationships with the LPs so that they can make the proper introduction but also get feedback as to why there might not be interest.

IDD: Can you give us an example of a common question that comes up in these meetings?

Lesavoy: Yeah. 'If this is such a great strategy and it's so different, why is everyone else doing it?' A lot of managers don't really think through their competitors' market space. A frequently-asked questions list is a great thing for a fund manager to prepare in advance. In order to do that you have to go out to people who are knowledgeable about private equity, venture capital or whatever type of fund it is that you're selling, and be sure that you have covered as many questions as possible.

IDD: It sounds like marketing has become a more important element in fundraising.

Lesavoy: Well, the investors have so much more choice. It's really important that the funds can communicate their message in the way investors need to hear it. There's a lot of competition out there and it's very hard to get to the next level if you don't have something that's memorable. A lot of people forget that the purpose of the first meeting is to get to the second meeting. So, a lot of people come in and want to tell their whole story and when somebody says 'tell me about your background' they almost start with kindergarten.

IDD: How many weeks does it typically take to secure a fund commitment?

Lesavoy: It really depends on the strategy and the appetite of the investors. But, I would say it's very rare you're going to have a commitment at your first meeting. It would take three to five weeks.

Well-established funds have a leg up because they have an established base of investors that are going to take a meeting and do due diligence.

There are at least two meetings even on a re-up.

IDD: What do you find most challenging about being a placement agent?

Lesavoy: Finding the right funds to work with. What's really challenging is to find the teams that have the strategy that are of interest to the LP community. There are a lot of funds and opportunities for placement agents today, maybe more than I've seen in a long time.

IDD: What about fund of funds, are you seeing more of those in market?

Lesavoy: Fund of funds is having great growth. I think a lot of that is due to the ability to have large due diligence staffs that can scour the world for the best opportunities. There were a tremendous number of Asian fund of funds raised last year. The fund of funds offer a great solution to the investors who are coming into the asset class early on or those who don't have the resources to travel the world and find [direct] investments.

Another interesting one is TrueBridge Group, a specialized venture capital fund of funds that actually had a differentiated aspect to it. The TrueBridge Group is associated with the Kauffman Fellows and that program places individuals and venture funds throughout the country so that the understanding of those funds and the access is a lot deeper. That's a great concept.

IDD: Is there an ideal mix when it comes to sources of capital in funds?

Lesavoy: A diversified base of LPs is really important. The goal is to really get a broad base of investors. As the LP base changes you need to really be sure you're set for the next fund. If a fund has the right base of investors and actually does what they say they're going to do, they don't have to fundraise again. Their LPs are going to keep coming back.

I think the endowments and foundations for those that are newer to the alternatives are great sources.

Georgetown University, for instance, has really increased their allocations to alternatives. Around the world the allocation in Europe has gone up and the interest in non-brand names has increased, and that's a great opportunity. The high-net-worth [market] has really become institutionalized and the number of high-net-worth organizations has really grown. They're harder to find but they're really well-managed. The idea of pooling families together has really taken off. The public funds are very vibrant now and several states that haven't been in alternatives are getting into it.