Shortening the Capital Raising Process

May 2025

We have recently witnessed a noticeable lengthening of the time needed to close on an institutional investor's fund allocation. Anecdotally, the typical time frame to close on an institutional investor allocation appears to have increased from approximately 8 - 12 months to 18 - 24 months for closed end/private equity funds and from approximately 3 months to 6 - 18 months for open end/hedge funds. While there may be variables beyond a private fund manager's control, there are a number of steps that can be taken which can streamline the fundraising cycle, including:

- **Do thorough background checks:** It is surprising how often a potential investment is pulled because of items discovered on a background check. Therefore, it is imperative that all key personnel (at the very least the founders, the whole C-suite and all investment professionals) be checked. Any red or even yellow flags (such as an old charge) need to be addressed, and remember that in the current fundraising environment it is better for the manager to be conservative when handling these types of issues.
- **Prepare a proper marketing deck:** The marketing deck is often the only bite at the apple for many managers. Accordingly, it must look professional, be edited for typos and grammar, and should be reviewed by experts from both a legal and business content standpoint. There are many common mistakes that can be avoided, such as those relating to past performance, fund strategy and risk guidelines, manager biography and fund terms. Brevity is best; decks should not be white papers.
- **Perfecting the presentation:** The manager should continue to refine the pitch in front of as many people as possible, including prospects, service providers, friends & family, industry insiders, etc. Seek feedback, especially as to the latest hot button topics that come up in investor meetings and prepare accordingly. Particular emphasis should be given to any perceived weaknesses in the manager's pitch, in order to address those proactively in the best light possible, so as to minimize any unexpected questions from investors.
- **Avoid reinventing the wheel:** Managers may try to come up with a very novel fee or liquidity provision or fund structure that they believe will address a specific gap in the marketplace. While these terms are sometimes well-received, they will greatly slow down the diligence process and will raise a host of questions, especially for a first time fund manager/launch. Taking such an approach, either in a more bespoke separately managed account or fund of one, or in a later fund when the manager arguably has more bargaining power, may be a better path forward.

- **Produce a thorough information packet:** In anticipation of increased due diligence demands for greater amounts of data, managers should consider collating a "ready to go" data package complete with the most commonly asked items, including a DDQ, compliance summary, and other policies and relevant items.
- **Minimize the need for side letters:** Oftentimes, a prospective investor will ask for a number of provisions to be included in a side letter which, depending on the length, can take a lot of time to negotiate. While such requests may be unavoidable (e.g., investor-specific tax or regulatory requirements), many side letter requests are business terms that could instead be preemptively built into the fund's offering documents. For example, investors frequently ask for a side letter clarification that the fund indemnity clause will exclude disputes among investment manager personnel; this is non-controversial and could easily be added into the fund limited partnership agreement. Similarly, if there are other requests that the manager often receives and often agrees to (e.g., certain notice provisions), those too could be built into the fund documents. Lastly, as the industry evolves, the manager's counsel and capital introduction relationships can provide relevant guidance on how fund terms are changing.
- **Line up references in advance:** To the extent possible, the manager should try to have high quality references available who can speak to the portfolio manager's character and investment expertise. Moreover, if there are several key persons at the firm, it would be prudent to have references for all individuals.
- **Allow investors to share their due diligence:** During Covid, many allocators were unable to conduct the same level of due diligence, especially on-site. As such, it became a somewhat common practice for many such firms to adopt a "divide and conquer" approach. Under this method, each due diligence firm was responsible for a sub-group of prospective managers from a larger list, and then the information was shared. By allowing due diligence firms to share their analysis, a manager may be able to condense this part of the onboarding process.
- **Try to check all the boxes:** Possibly the lowest hanging fruit from an investor due diligence standpoint is who will be helping the manager launch the fund with respect to both internal and external personnel. Among the common areas of investor concern that are seen somewhat regularly are: hiring family members or unqualified friends; utilizing service providers who are not well-known, have limited relevant experience or have disciplinary type issues; and outsourcing certain functions that should be handled internally.

- **Take advantage of the latest technologies:** With the advent of new types of investor-friendly subscription software, it is getting much easier to have investors fill out subscription documents and remit capital. Similarly, on-line data rooms are another efficient way to interact with potential investors.
- **Maintain an open dialogue with prospects throughout the process:** By understanding any specific client goals early on, managers can minimize problems down the road. In addition, by building such a transparent relationship, the manager can feel more comfortable discussing items such as funding timelines and likely investment amounts, which will help inform the manager's launch date decision.
- **Have skin in the game:** The manager needs to be clear that the principal's capital will be at risk too. Hesitation in this regard or an unwillingness to disclose what's being invested could prove problematic.