ASANTE
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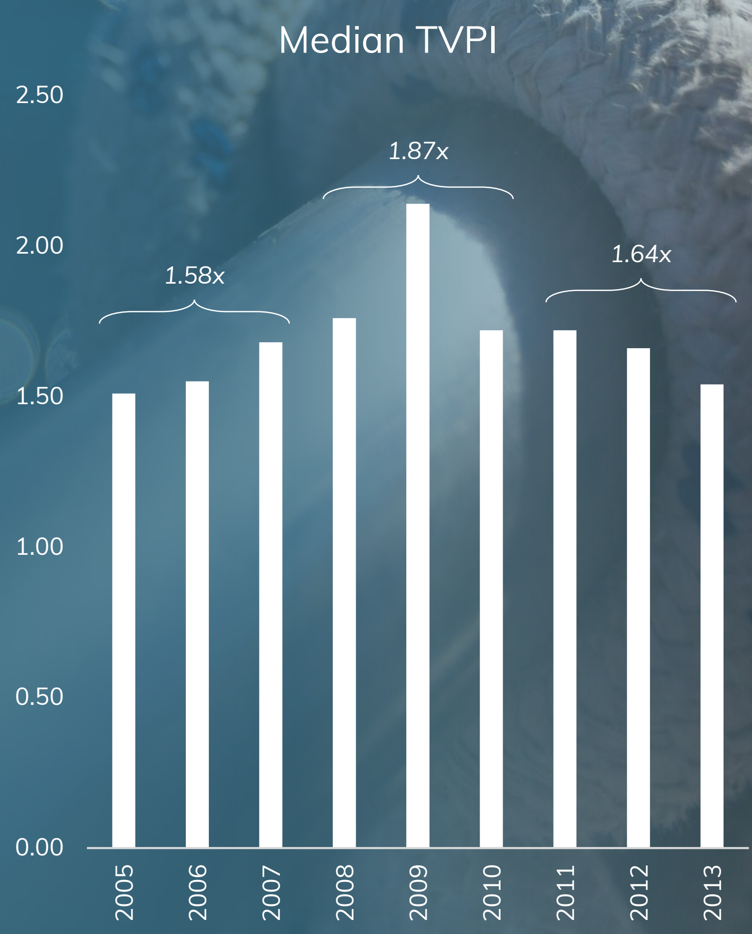
Fundraising Update
Bracing for Rough Seas

Founded in 2010, Asante Capital Group is one of the largest independent private capital advisors, active across primary capital raising, secondaries and direct transaction advisory, with offices located in London, New York and Hong Kong.

There is no doubt recent market turmoil has made investors re-evaluate their investment strategies and potential short-term allocations in the search for liquidity. For private equity, the concerns around the recent downturn have included factors like portfolio company leverage, credit facilities (particularly around subscription lines), the denominator effect and general business continuity and going concern. Many are waiting for Q1 figures, typically released 30 – 60 days post quarter end, for some clarity, but even then it will likely be Q2 numbers, published in July/August, that will provide the greatest signal regarding the real impact of this crisis. With this wall of challenges, there is little downside for LPs exercising increased caution in their decision-making processes and thereby extending timelines.

For instance, we have seen a number of Family Offices take a breath and respond more dynamically to the new environment as they tend to have more flexibility around investment programs and have the capacity to be opportunistic given their long-term 'un-bucketed' capital. In contrast, we've also noticed LPs with longer-term liabilities, such as Pension Funds and Insurance Firms, using this as an opportune time to average down and rebalance their overall investment portfolios. Other asset managers remember post-GFC investments as some of their best vintages and do not want to lose out on potential opportunities. The general trend is one of caution and recalibration, although we are seeing some investment professionals engage the current environment with a more front-footed approach. Whilst there will be a lag in deals completing, some are seeking attractive opportunities in the form of re-priced direct transactions as well as funds that will benefit from a strong pipeline in today's market, including distressed, special situations and various uncorrelated strategies.

Not all investments are created equal and there are certain sectors and strategies which have suffered in the current market more than others; consumer-focused funds and venture capital are unsurprisingly facing difficult times



times. Energy funds, especially those with exposure to the US oil and gas market, have suffered significant negative impact as the landscape settles into a dramatically lower price-per-barrel reality, with significant excess supply.

First-time fund launches without an anchor group have similarly opted to postpone, instead focusing on high-level conversations with key investors and funding opportunities on a deal-by-deal basis. On the other hand, we've observed strong franchises in the US, Europe and Asia raise at their hard-cap in the last month or so. To be fair, these fundraising processes were significantly advanced at the kickoff of 2020, but nevertheless LPs didn't waiver in submitting their subscription documents to ensure their allocation to the respective funds.

While we've seen a few delays, what is clear is that there has not been a "knee-jerk" reaction to halt all investment activities. Seasoned investors will have learnt from the last financial crisis that it is important to continue deploying capital consistently through market cycles. Private equity funds with vintages 2008 – 2010 actually performed better (averaging a 1.87x TVPI) than the three years prior (2005 – 2007 funds averaged 1.58x TVPI) and three years following (2011 – 2013 funds averaged 1.64x TVPI).[1] A recent report from EY notes that private equity's best returns as weighted by IRRs tend to follow recessionary periods, and with the timeline compressed in terms of market downturn and the trillions of dollars which Central Banks have responded with, it will be interesting to see how long the next recession will last.[2]

In the short term, we're seeing firms that cover multiple asset classes turn their attention to public markets and other tradable securities as they wait for some stability to decide on a clear course of action. But in the long term, we outline some best practices for private markets fundraising in times of prolonged uncertainty.

[1] Cambridge Associates, Private Equity Benchmark, Q3 2019
[2] EY, *Why Private Equity Can Endure the Next Economic Downturn*, March 2020

Navigating the doldrums

The timeline for PE and other illiquid asset classes' fundraising is driven significantly by external cycles (i.e. macro-economic and political) as well as internal GP-driven factors (i.e. pre-marketing, first and interim closes, final close, relationship-building). The below are some thoughts to bear in mind for managers navigating the current cycles across various stages.

Relationship Management

Like any relationship, communication is key. Whether the GP is raising currently or out of the market, investors will want to get a clear sense for the impact on the current pipeline, the first order and secondary-effects of the coronavirus on portfolio companies and the business continuity plans in place on both a fund manager and portfolio company level.

We are seeing most managers conduct comprehensive impact assessments on their portfolio with some using the information gathered to create investor touchpoints, both verbally and via email. Rather than relying on inbound calls from worried LPs monitoring their portfolio, GPs should consider proactive outreach initiatives like periodic investor conference calls highlighting the robustness of the investment thesis and even the pipeline opportunities which arise. These updates should continue over time as the environment develops and not just be focused on the immediate first months' impact. Ultimately, such approaches are remembered as investors speak and these initiatives will build a lasting positive image for the manager when being compared to peers in the future.

Relationship Building

While both GPs and LPs have historically spent their time between AGMs, conferences, update / origination meetings, DD work and on-sites, an absence of traveling and events means less rushing about and more time for desk-bound investors to review materials and engage in conversations. In the new working-from-home reality, the commute time saved by now going from bedroom to dining table means more capacity to review an additional pitchbook or give that data room a second look. This is particularly relevant for GPs in the pre-marketing stage. We're finding many LPs happier to take calls and willing to chat about what's being seen in the market and potential investment opportunities arising. The "we are all in the same boat" mentality is bonding people more than before.

Launch Time

For GPs in the pre-marketing stage, particularly emerging managers, they will do well to consider temporarily delaying the official launch of the fund while continuing to have periodic high-level conversations with key investors, potential anchors, and refine their materials.

With so many investors now putting off in-person meetings, GPs may find it difficult to make significant traction with new investors following an official launch, unless there are already strong pre-existing relationships in place. That does not mean GPs should sit idle on the capital raising front: kick-starting a dialogue with key target LPs without pushing a timeline and product in the short-term is quintessential in kick-starting the diligence process in the medium-term, especially if the market ends up being congested in a few quarters with the cumulative effect of delayed activity.

Currently fundraising

As many investors go into a more passive "wait-and-see" mode until the dust settles, GPs might see their fundraising timelines elongate – but that's not always the case. We are aware of several investors already in advanced diligence who are still picking up their pens and completing their diligence quite literally in-house. Travel bans no obstacle: we have a couple managers where investors had cancelled going onsite as part of the final diligence step, instead rescheduling as a series of video conference sessions which met their final diligence requirements.

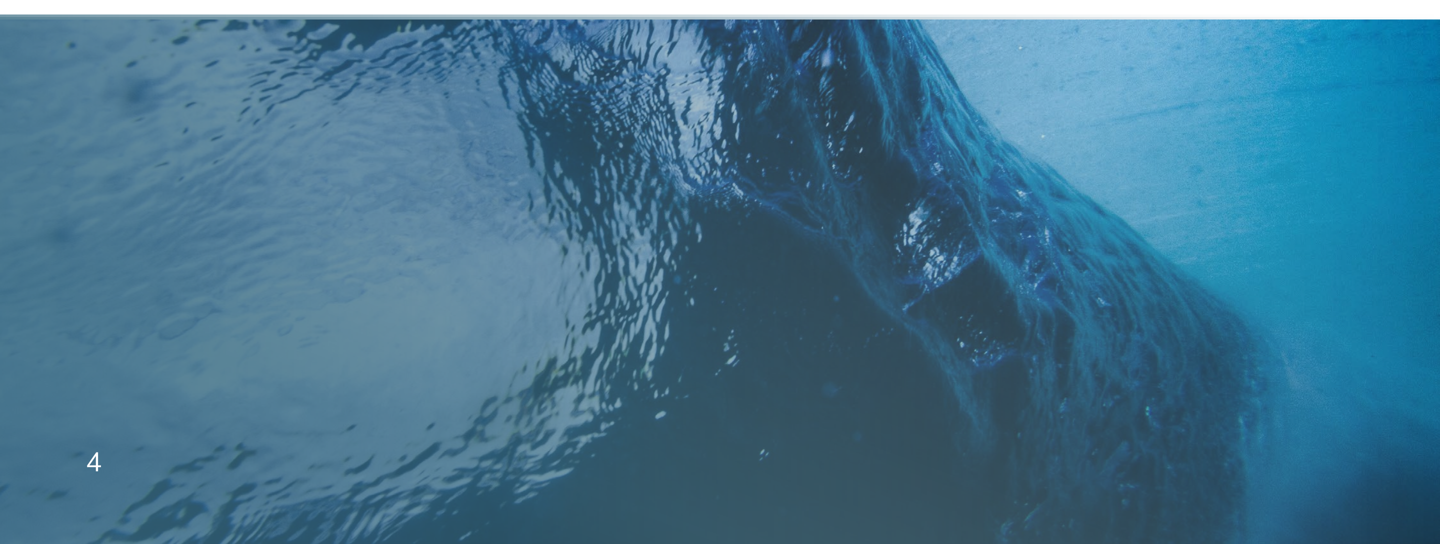
Depending on how long market volatility persists, fundraising in the near- and medium-term might find itself augmented into a hybrid condition. Instead of the traditional "First and Final Closes" (or "one and done"), GPs might consider holding multiple successive closes on smaller amounts of capital. A rolling fundraising would help drive fundraising momentum, allow the necessary capital for deal-making, give additional prospective investors access to portfolio visibility and permit LPs to spend more time referencing each other's diligence where appropriate as all parties look to engineer a sustainable work-around solution to not being able to come on-site.

Incentives

Given the congestion in the market and with the overlap of funds raising at the same time, when LPs do start to think about their investment strategy, they will need to prioritise some managers over others. While they might have invested in two managers across two quarters, they may now have to decide on one vs the other. Incentives for First Closes and other forms may provide further drive to meet set timelines. This would be useful to means of enhancing the LP's ability to meet closing deadlines when an investor is already convinced they want to back the manager.

All is not lost

Whilst acknowledging that this market correction / recession / depression et al, is only in the first innings and we're interpreting information and calibrating on a daily basis, we believe that the private market will once again emerge a relative winner through this downturn as investors are unable to redeem their positions, the market is not directly exposed to weekly investor sentiment swings, GPs retain a relative-to-absolute degree of control over each portfolio company and are able to effect change and protect against medium-to-long term decline to the best extent possible and finally are aligned economically to do so. Fairly easy to suggest that as we find the bottom in this market, even if it takes a few years to come out the other side, those strong managers with dry powder will thrive and a prudently invested late 20/21 fund should repeat the results observed post the previous financial crisis.



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