Capital Raising in Times of Transition
The Road to 2025

Since the publication of our piece Capital Raising in a Recession, the trend of volatile and rapidly changing facts on the ground continues. Sentiment is split as to the potential outcome in reigning in inflation, while geopolitical shifts march on and market volatility remains slightly elevated.

Allocators are looking for the right partner for the next decade, with billions at stake. While PMs and risk managers remain laser focused on adapting portfolios to navigate rate rises, unpredictable markets and currency risk, marketing and investor relations decision makers are developing new strategies to build more enduring asset bases and LP pipelines. Here we explore some of the people, policies and processes that are helping develop next generation asset growth strategies.

UPDATING STRATEGIES

Do you have one? Sometimes the most basic and fundamental questions for business building and management go overlooked – especially when to-do lists are already packed.

- **Do you wonder why your competitors are raising capital at a faster clip - but your performance is better?**
- **Are you confused by outflows not triggered by underperformance or capturing gains?**
- **Are you having difficulty making sense of the competitive landscape given the Covid era and realignment of allocator needs given broader market changes?**

It is now nearly cliché to talk about how much the world has changed in the last few years, but if you're asking yourself the above questions, it may be time to rethink your capital raising strategies in whole or in part.

Building fundraising strategies and capital maintenance for the next three years may look quite different than those that were successful three years ago. While hedge funds differ from other sectors and industries, there are certain shared standards that drive successful marketing strategies.

1. Differentiated lead generation and conversion
2. Connecting with the marketplace by attending conferences, traveling strategically, fostering new relationships and revisiting old ones now that the world is operating again
3. Telling your story that establishes your value proposition and expertise in the current environment
4. Update your communication mediums to remain transparent and personalized in times of volatility
5. Identify a suite of data and analytics to help measure progress, missteps and areas of improvement – and then put time and effort into using them

WHEN THE TIDE GOES OUT, PARTNERS MATTER

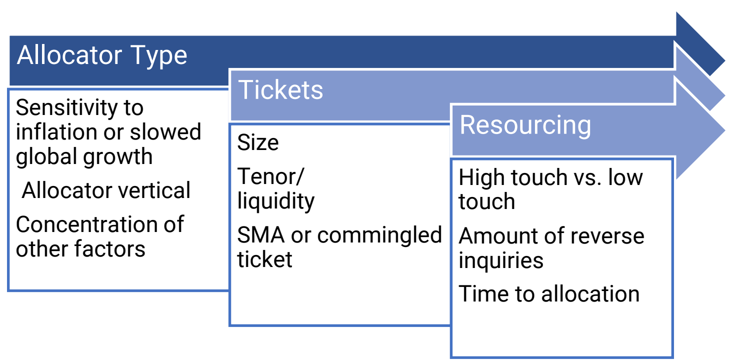
The hardest lessons to learn across cycles. In addition to the due diligence process managers go through when being considered by a new allocator, managers increasingly vet *allocators* to ensure they are the right partnership fit for their firm.

What's at stake is considerable.

A check isn't necessarily 'just a check,' and an allocator with a large ticket may not make as much sense as pursuing the right investor, depending on the firm's strategy, capacity and ticket size.

There have been numerous examples in recent years of sizable LPs who have been forced to (at least partially) redeem from managers given their own changing needs.

Deep Dive on LP Base and Pipeline



It is increasingly an oversimplification to view partners solely by the type of institution (pension, family office, etc.) Just as there can be unintended risks and exposures in a portfolio – firms can have hidden risks in their LP landscape – depending on allocators' own idiosyncratic needs given changing market conditions.

PRODUCTIVITY MATTERS…
BUT MAYBE NOT IN THE WAY YOU THINK

What do productive marketers and investor relations professionals look like? How is their success measured over cycles and in turbulent times?

We're often quick to think asset growth is the absolute and only marker of productivity, but while it is *a* critical sign, there are other factors that also drive a firm's durability, growth and success over time.

POTENTIAL METRICS TO EVALUATE PERFORMANCE ACROSS CYCLES

1. Diversification of LP base and LP pipeline to enhance resilience
2. Raising incremental dollars from your pre-existing partners to demonstrate deepening relationships
3. Enhancing communication strategies and execution – do more people engage with or consume what you distribute?
4. Increase engagement with LPs by building out investor days, webinars or thematic sessions to share insights and expertise
5. Acting strategically for internal clients – facilitating the best use of the founder and PMs' time, messaging effectively while escalating discussions

RETHINKING THE CAPITAL RAISING CYCLE

Covid changed the dynamic between in person meetings, Zoom meetings, conferences and the use of virtual connections during the capital raising process.

We are anecdotally hearing allocators shifting to strategically pick a conference calendar that maximizes the ability to make a first connection in person, before following up with a Zoom or second meeting.

On the other hand, managers are tracking the yield of virtual meetings to tickets written, to understand in an evolving environment whether they are a tool of efficiency or a more challenging way to earn the next dollar.

Both groups are still finding their way post pandemic, with a patchwork of approaches to identifying new managers or partners, building relationships and developing enduring ecosystems.

STORYTELLING AND COMMUNICATION:
IS ANYONE EVEN *GETTING* THE MESSAGE?

Should be personalized to both your fund *and* the allocator across the table *and* tailored to the current market environment.

Our attention spans are only getting ever shorter – and with a more crowded competitive landscape, it has become an essential tool in firms' strategies to ensure their messaging and branding is clear, consistent and impactful.

Is email your primary mode of communication? As of 2023, an estimated **35% to up to 85% of email falls into a SPAM category**. You're emailing your LPs, and so is everyone else! Next generation firewalls also can impact the success rate of widely distributed or mass emails.

It's worth asking:

- Is email your primary way of communicating?
- Are investor letters worth their salt?
- Who writes them and is it differentiated enough to make a difference?
- Do you track who reads them – and who doesn't?
- Are your metrics actionable, and do they lend themselves to proactive, targeted follow ups?
- Would other methods of communication find an audience instead, or
- Could multiple methods of communication broaden your potential audience?

So much has changed in terms of how we find, consume, and act on information. Taking a fresh look at how firms communicate – and whether they're *actually* getting the impact they want, rather than the impact they *think* they are getting. Webinars, videos and audio solutions are in the mix in the way that would have been much less common years ago.

REGULATION IS IMPACTING THE 'HOW' OF MARKETING

Much has been noted about the increase in regulatory action in recent years, with 2022 witnessing [more than 35] new proposals by the SEC. A number of these directly affect different dimensions of the capital raising, retention and reporting environments. Managers could be caught flat footed in an exam if they haven't reviewed their materials to ensure they are in line with new requirements.

Many of these rules are focused on enhanced transparency, accuracy and fees, and may relate to how firms present case studies, performance and track records. Additionally, some of the SEC proposals around transparency may affect how managers streamline terms and structure share classes and products going forward. Decision makers should consult with counsel to ensure they understand the new regulatory requirements. There is a growing number of third party service providers who are collaborating with managers to accurately build new performance attribution offerings that work to reflect these new rules.

The SEC recently also announced its 2023 examination priorities. *The new Marketing Rule* is among them, and was explicitly laid out by the agency as "a significant change to a core examination review area." Exams will also encompass reviewing potential conflicts of interest, calculations of fees and expenses, how managers are marketing any environmental, social or governance products, as well as exposure to crypto currencies or other emerging technologies.

The full report articulating the 2023 examination priorities can be found here: https://www.sec.gov/files/2023-exam-priorities.pdf

Additionally, some managers and allocators are working with compliance professionals to review firm communications and may be exploring requiring employees to maintain two devices following the agency's sweep and settlements in recent years.

CONTACTS

Leor Shapiro
Global Head of Capital Intelligence
+1 212.336.6267
lshapiro@jefferies.com

Shannon Murphy
Head of Strategic Content
+1 212.336.1139
shannon.murphy@jefferies.com