

Looking for reasons not to invest

LPs are reporting a record number of fundraising extension requests – and may be toughening their stance on issues like ‘key man’ clauses as they make fewer and smaller commitments.

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“Over the past year, I have seen more requests to extend the fundraising period than in the decade before it,” an investment officer from a large US public pension told us recently.

And such requests are coming from well known names with solid track records, like turnaround specialist WL Ross & Company. The firm has been raising its fifth fund for more than a year, but has only collected about \$450 million towards a \$4 billion target.

As we reported earlier this week, the WL Ross extension news once again demonstrates just how brutal the fundraising market has become. But some sources also felt it pointed towards one of the factors which has long been a core issue in manager selection: GPs’ succession planning.

WL Ross’ founder, the 73-year-old Wilbur Ross, pledged last year to stay at the helm for another five years and the firm does have a succession plan in place. Some sources, however, have doubts over the plan’s viability given Ross’ dominance. Whether or not those questions are actually valid or impacting fundraising progress is unclear, but certainly in today’s fundraising environment, in which LPs have a plethora of funds to choose from (many with founders nearing or beyond retirement age), succession is a key issue.

According to an investor survey published this summer by Coller Capital, the majority of the 110 limited partners surveyed (87 percent) said they intended to turn down some GPs’ requests for reinvestment over the next 12 months. One of the top three reasons cited for refusing re-ups was succession issues.

In some instances, limited partners are now requesting that key man clauses, which trigger certain investor rights following the exit of a crucial GP, be drafted to clarify how many hours per week a key man should be working. “Whereas before a partnership agreement might say a key man has to invest a ‘substantial amount of their business time’ they may now specifically state a 40-hour work week”, says one London-based funds lawyer.

Our sources say to expect this focus on key men and succession planning to intensify. But we reckon the list of boxes fund managers must tick won’t just be limited to this issue amid the extreme competition for commitments. Because the real problem is that global economic turmoil – coupled with LPs’ need to pare down relationships just as more and more managers hit the fundraising trail – has investors looking for reasons not to invest.

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