LP, Consultant and Fund of Funds Questionnaires

Why do your clients/don't your clients invest with emerging managers/first-time funds? What factors influence this decision?

1. Access to off-market deal flow.
2. Opportunities to work with historically successful investment talent.
3. Having less capital, investors believe the sponsors will be highly focused on their investments
4. An issue/concern investors have about committing capital to emerging managers and first time funds is the potential inability to replicate past performance (e.g., more limited access to deal flow, execution issues).

What key factors influence your decision to invest with a specific real estate manager?

1. Differentiating strategy.
2. Strategy fit in portfolio.
3. Appropriately-sized fund based on market and experience (some mentioned a minimum AUM of $100 million).
4. Visibility of strategy in current market cycle.
5. Ability to add-value beyond financial engineering.
6. Operator vs. Allocator - focus on ability to add value consistently. While there is an inclination toward operators, exceptional allocators are also highly valued.
7. Demonstrable pipeline.
8. Sponsorship risk.
9. Risk management and corporate governance.
10. Past record of performance attributable to the current team.
11. Quality of the team and experience.
12. Team culture and time spent together.
13. Experience as a fiduciary with an emphasis on transparency, systems and operations.
14. Alignment of interest, including GP investment, fund structure and terms.
15. Anticipated strong risk-adjusted returns, specifically focused on the underlying risk and fee structures.

In your experience, what could/should all emerging managers (or even all managers) be doing to better position themselves for an institutional fund raise?

Firm and Strategy

1. Clear, concise and proven strategy.
2. Know thyself. Managers should understand their investment beliefs, core competencies, and constraints. They should be as clear about what they don't do as they are about what they do.
3. Understand how their product is positioned relative to peers.
4. Clear investment philosophy and process.

Team

5. People, team strength, longevity and forward continuity.

    a. Including team synergy, dynamic and culture.
6. Have the team and organizational structure in place from the beginning – it should not still be a work in progress.

Diligence and Terms

7. Thorough vetting of the investment management process, the same process will be used as when looking for a regular manager.
8. Fee structure (effective fee must be less than the current fee for active management in similar strategies).
9. 1st closing incentives and avoiding terms that are less favorable than market
10. Offer attractive co-investment opportunities so that LPs can "test drive" the GP without locking up amounts for 10 years.
11. Background checks for firm's principles.

Track Record and Deals

12. Track record- whether at a prior institution or through finding an early sponsor to assist in executing on deals to build a track record.
13. Performance – available information must exceed the benchmark.
14. Provide ALL track record information.
15. The single most important thing for all managers to be doing to better position themselves is deals. Too many managers are simply becoming full time fundraisers.

Governance

16. All managers need to look at how they are investing and conducting their business as a true fiduciary. So many times acts of managers become all about what is good for the manager and not about what is good for the investors. If a manager can run his or her business as a true fiduciary then they will be able to weather any storm as the investors can see the consequences of the manager's actions. It can be a slower process to build assets under management but in the long run it can build good franchise loyalty.
17. Systems, technology, research capabilities, and compliance systems.
18. Consider obtaining a Federal 8(a) certification from The U.S. Small Business Administration, if applicable.

Fundraising

19. Educate themselves on institutional investor needs and expectations and then develop a capital raising strategy. This includes researching and determining target investors and then being prepared to spend time building relationships and educating potential clients about the team, market opportunity, and strategy and what the manager offers in terms of competitive advantages.
20. When marketing directly to a specific investor, the emerging manager should be sure to research the current holdings of that investor. Use this information to explain how the emerging fund can serve as a compliment/benefit to the investors overall portfolio.
21. Have **electronic** copies of fund raising materials that demonstrate the five Ps (people, product, process, performance, and pricing) well.
22. Have complete documentation on prior investments ready for investor review and be prepared to talk about them. Ensure it is market terms, unattractive, antiquated or unusual terms will only delay the fundraise.

23. Choose a placement agent or an internal marketing representative carefully. Emerging managers should select those that can not only serve the role of an investment banker, but also a trusted advisor in reviewing presentation materials, aggregating historical track record information, assisting in review of legal documents, etc.
24. For the benefit of managers, they should meet with placement agents to gauge potential demand from institutional investors and to understand institutional expectations.

What is the most common mistake an emerging manager (or all managers) should seek to avoid?

1. Having too many different products with differing strategies that are outside of their demonstrated skill sets.
2. Take time to evaluate themselves so that they can clearly and effectively communicate – on paper and in person - what their strengths and competitive advantages are to potential investors.
3. Trying to fit the mold of the established managers and seeking to conform to the industry standard. Unfortunately, many industry participants encourage emerging managers to be conformists instead of suggesting that they highlight the factors that differentiate them and provide investors with unique factors that are not easily accessed elsewhere.
4. Approach any sharing of economics (GP ownership, carry) with anchor investors very carefully. Avoid if possible.
5. Before sending out a flipbook or presenting to a potential investor, managers should seek the advice and feedback of others in the industry to be certain that they message they intend to deliver is actually what is being communicated in the materials and during a face-to-face meeting.
6. Using politics and going around staff.
7. PM’s should be involved in meetings – not just marketing people.
8. Show up on time and stick to the allotted time.
9. Do not review a pitch book page by page during a first meeting.
10. Don’t sell investors on “we don’t have legacy portfolio issues” as a reason why they should invest. The only reason you wouldn’t is that i) you don’t have investment experience; ii) you weren’t the lead principal previously; or iii) you ran out on a bad portfolio. None of these are good things.
11. Make sure that the team understands the nature of institutional capital raising. This is very different than passing the hat to raise equity on a deal-by-deal basis. Institutional investors are likely more experienced and sophisticated than the investors an emerging manager dealt with in the past.
12. Coming to the institutional markets prematurely – not the depth and breadth of investment experience. Many mangers I have seen would do themselves a favor to raise capital as an operating partner of a diversified fund and round trip their capital or raise a couple of funds from HNW and show value creation that way.
13. Attempting to raise an institutional fund without a track record together or assuming that separate track records at different organizations are sufficient proof of their ability together
14. Not having a strong team in place beyond just a strong leader. Building the right team out of the gate. We see many that have a good #1 or #2 in place but they fail to build the support structure needed to support the organization. Instability in the organization even at the lower ranks can be a large problem when entering the market to raise funds in the future.
15. Lack of strategic focus long term vision for their organization – where do they want to be 3 funds from now? What fund size do they want to get to in order to fit their strategy? Is the

strategy adaptable for different cycles? The fund raised should match what they believe the long term strengths of the organization are.

16. Many underestimate the difficulty in raising institutional capital. Building and proving the story prior to raising an institutional fund is paramount to success.
17. Setting unrealistic capital raising goals. EMs should start with a manageable target – deploy the capital prudently and raise Fund II.
18. Unrealistic expectations about how much an institutional investor may consider initially investing with an emerging manager and how quickly this decision can be made.
19. Lacking institutional quality fund administration and reporting.
20. Ensure you are open and transparent with your investors.
21. Don't spend a lot of time up front asking potential LPs questions. Is this a product that LPs want and are looking for OR is this a product you created and are hoping that LPs are attracted to it?
22. Not treating investors as partners.
23. Asking what they can get from LPs, rather than what they can do for LPs.
24. Be grateful.

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Emerging Manager Questionnaires

What is the most constructive feedback you have received?

Firm, Strategy and Team

1. Differentiate your investment strategy.
2. Right size your capital raise to the investment market opportunity, this will likely mean a smaller fund.
3. Design your policies and procedures and back office not only before approaching investors, but before making your first investments.
4. Team is important. Every member.
5. Build a team of talented people that share both similar values and long-term vision for the firm. Create an alignment of interest and organizational and economic construct to recognize long-term value creation for the team.
6. Never become too emotionally attached to any one deal or transaction and stick to your core investment discipline. It is equally important to learn from past mistakes, deals that were passed on and should have been done, and apply those patterns to future business while not harping on lost opportunity. You have to accept the low-conversion nature of this business if you are going to be successful in the long term.
7. Be true to your investment strategy and never give up pursuing your vision for your business.
8. Have a niche investment strategy and/or market-specific expertise to differentiate the emerging manager from other, larger managers.
9. The need to show how our team is differentiated from competitors and other market participants.
10. The need to limit the use of leverage and derivative instruments.

Track Record

11. Do not be defensive; own the good and the bad.
12. Do deals and build a track record with the present team; build a pipeline.
13. Show us how you create value in your investments.
14. Track record is important. Pro formas are nice, but many institutional investors want to see 'skins on the wall.'

Networking

15. Network in various circles.
16. Networking with consultants and public pension funds may not be worth the effort until you are bigger and more established (unless you are minority or woman-owned firm).
17. Never stop prospecting new companies… even when you think you have all of the commitments you need for a close.

Fundraising and Terms

18. Don't pursue a co-mingled fund right now.
19. Fund raising will take twice as long as you might initially think.
20. Target market preferences, product types, fund terms and deal breakers will vary by investor. It is hard to please everyone all the time, so be sure to communicate a clear strategy and give thought to which fund terms may be negotiable.

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21. After initial meetings, to be prepared to answer follow-up questions promptly, and succinctly. To provide clear, detailed information about our track record, and to be prepared to highlight not only successes, but lessons learned.
22. Don't go to market with a reduced fee structure, LPs will want to negotiate no matter where you start.
23. Be ready to discuss your worst investments and mistakes you've made and what you learned from them.
24. The best way to successfully refute concerns is to provide examples of closed transactions and pipeline opportunities.
25. Be prepared for every institutional investor at EVERY closing to extract their pound of document flesh.
26. LPs care very much about who the other LPs are in the Fund.
27. Alignment of interest is everything.
28. Direct encouragement to continue contact if there is the potential for investment (even if not in the immediate future) and, correspondingly, direct and timely indication of a lack of potential for investment if that is the case. Similarly, guidance as to an LP's current "bandwidth" and ability to focus on the opportunity at the current time or in the future.
29. The need to explain to perspective investors how our strategy can work in various economic scenarios.

Governance and Communication

30. From a leading institutional LP: Communicate regularly with your LP's in a manner that is transparent, timely and responsive. Avoid surprises.
31. The importance of GIPS compliance.
32. Effective communication is as important as effective execution.

Miscellaneous

33. "No one has ever been fired for recommending and then losing money with Goldman Sachs ". Despite how much a company claims to be committed to working with emerging managers, investing in a known entity or big name firm, or reinvesting with an existing manager is easier to justify, easier to execute and still happens all too often despite their poor historical performance or lack of investor satisfaction.
34. Drink heavily.

What advice would you give to other emerging managers considering launching a fund? What are the biggest obstacles you have faced with institutional fundraising? How did you overcome these?

Strategy

1. Seek opportunities to show capital sources your investment conservatism.
2. Stick with it; try to build an independent investment track record with as many realized results as possible.
3. Niche Bias: Every LP has an opinion on your strategy before you meet with them. The challenge is to excite them about your niche, regardless of their thoughts going into the meeting, and then *show* them that you are the best GP to accomplish the strategy. Stick to your guns, though… you chose your strategy for a reason, and you need to display confidence in your strategy.
4. Drink heavily.

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Team

5. New managers should "over-invest" in people and resources to set the proper foundation for the formation and growth of their business. The obstacle was the cost of building the organization, which we overcame by living with zero profitability and zero promote for the first four years.

Firm and Branding

6. We would advise other emerging managers to strategize your business plan carefully: How will you balance commingled funds with separate accounts? How will you structure your fees to entice institutional investors when (in terms of paying for the overhead) you cannot yet benefit from economies of scale? How will scale up your capacities?
7. Must have the wherewithal to be small and unprofitable for several years.
8. Be prepared for a long haul. If you do not have determination, you will not last.
9. Most importantly, do not be cheap. Reinvest in your business as much as you can. It will pay off in the long haul.
10. Be sure you have the correct team, philosophy and focus to successfully invest in the environment we are living through. Investing is harder now than during past cycles.
11. Make sure your GP is well-financed. Our experience is that there are a lot of hidden costs to being a fund manager, and you should have access to $3 to $5 million to finance your GP before becoming profitable.
12. Don't just position yourself or your strategies for a successful first time raise, but rather for the long term.
13. Raising a fund is not a panacea; there are a number of more lucrative and efficient ways to capitalize your investment activities.

Structure

14. Before you embark on establishing a fund, educate yourself about both the benefits and the limitations of "having a fund" and conduct an honest assessment to determine if a fund format is right for your organization.
15. Determine if the emerging manager wants to align with a capital partner that funds initial overhead expenses. There are clearly pro's and con's to this approach and the potential for a misalignment of long-term interests.
16. Running a fund is an entirely different business than running a deal, or even a deal shop. The fund is a vehicle that lives by a pre-cast set of rules and regulations that must be respected regardless of the opportunities in which capital is invested.
17. Don't just position yourself or your strategies for a successful first time raise, but rather for the long term.
18. Look to align early with at least one investor to give your strategy and platform credibility/validity.
19. Given the extremely difficult fundraising environment, seek a large separate account rather than a co-mingled fund, especially if the separate account will consider becoming a lead investor in your co-mingled fund after you invest their capital.

Networking

20. We believe it is essential to seek advice from the most sophisticated investors and consultants. The biggest obstacle today is the time commitment required to raise institutional capital. We have not found any easy solutions.

21. Compare notes with other GP's whom you trust. Seek advice from other experienced fundraisers. Build relationships by serving as a resource to LP's and consultants, without asking for anything in return.
22. Get advice from professionals in marketplace on how to package materials and the story to be most effectively received.

Fundraising and Terms

23. Be patient. It is going to take a lot longer than you think. Regardless of how much experience you have and what you may have done, good and bad, you are starting with a blank sheet and you need to "prove" it all over again. With investors, we feel the response has at times been a bit schizophrenic. Some would say no more to the big funds and profess a preference for smaller, more targeted and aligned managers. Yet they have very high, and sometimes impossible, barriers to cross for new managers such as a requirement for audited track record, existing asset portfolio, desire to see full infrastructure, etc. At the same time, many of those investors have piled back into the mega funds – Blackstone, Lonestar, Carlyle – contrary to what they said they were going to do. For us, it's been a slow grind and we have built our business based on our strongest investor relationships, those who have known us the longest. One investor at a time.
24. Be persistent and develop "thick skin" – it can be difficult to get people to return calls/emails and when they do, it may not be what you want to hear.
25. Fund size has been the biggest obstacle we have faced with institutional fundraising. Most institutional investors have an investment limit of 10-20% of total fund assets, which, for a small fund or a fund early in the fundraising process, is a limiting factor.
26. The most confusing and, at times, annoying aspect of the process is the one-way nature of it. Try and encourage an answer, even if it's a "thanks, but we're (i) not making new commitments this year (ii) not considering an allocation to your strategy, (iii) already exposed to that property type, (iv) currently undergoing a portfolio assessment and developing an allocation strategy for 2012 so we're not meeting with managers, (v) etc. would keep most GP's at bay and satisfied for some period of time. Some GP's do practice this approach and they are, in the minds of the GP's, stars.
27. Updates: One of the most efficient methods of educating a prospective institutional LP is to show them *how* you create value. This can be accomplished by doing a post-mortem case analysis on a previous investment, or sharing a detailed yet brief summary of investments in the current fund that they might invest in.
28. Don't get discouraged when you are turned down. You will have to speak to 100s of people for every interested LP you get to invest in the fund.
29. Take the requisite time to understand the demands of fundraising and the effort required to appropriately manage a discretionary institutional fund. Ensure those requirements are aligned with your experience, capabilities and consistent with your business strategy.
30. You should be respectful of the fact that it takes a significant amount of time to establish credibility with a potential investor.
31. Make sure you have what it takes to get to a first close. This probably means cutting a deal with a lead investor before you go to market.
32. Create a reason to close, like fee breaks for early closers or the need to close because of impending investments.
33. Be strategic about capital raising – seek a first close investor who has previously invested with you and knows your track record.

34. Listen carefully to investor questions/ reflect after meeting – if their questions indicate they are uncomfortable with first time funds, prefer operator to allocator strategy, are uncomfortable with lack of realized track record, etc. often their questions may be saying "not interested."
35. Post first closing treat pipeline investors the same as closed investors.
36. Be aware that it is difficult to avoid investors and placement agents who will take meetings to gather information about you and your strategy without necessarily having a serious interest in you.
37. In considering working with a placement agent, be aware of competition for their time on the part of their other clients, particularly if you are asked for a retainer, and think of how you would be able to pay the placement fee in the event it cannot be paid from the fund's assets.
38. Be prepared for the frustration of being colored with the same brush as those who have come before or who have changed clothing in the last few years.

Summit-Wide Questionnaires

What questions and topics would you like to have addressed at the REEM Summit?

Definitional

1. How do I know if I am an Emerging Manager? I am not sure there is a bona-fide yes/no on this one. Is it based on AUMs, number of funds, etc.?
2. Does being defined an EM hurt or help your marketing?

Structure and Terms

1. Pros and Cons of having a lead investor as a participant on the fund's investment committee (voting or observing).
2. The benefits and risks of offering economic incentives for strategic/anchor fund investors.
3. What is the viability of some of the strategies mentioned in the CalPERS Crosswater report, which suggestions LP consortiums or intermediate fiduciaries to help protect against protracted fundraising with limited capital?
4. What type of vehicle is best for an emerging manager, a comingled fund or a separate account?
5. Are emerging managers investing their own capital in the GP or are they arranging other investors to sponsor their GP? How do investors look at this issue? We believe that personal investment is a critical factor.
6. How do you view or prefer to balance strategic partnerships versus vertical or horizontal platforms?
7. What are deal breakers in terms in any respect, e.g., fees, terms, strategy?
8. In addition to seeding MWBE funds with investments, are any of the participating institutions considering investing in the operating companies as well?
9. What terms should an EM use to incentivize investors to participate in a first close?
10. Importance of being a Registered Investment Adviser.

Track Record and Strategy

1. How do others get comfortable with the portions of the track record directly attributable to specific individuals who left the firm to direct the investment activities of the "emerging manager?" Where individuals have worked for larger organizations where multiple people are involved in investment and operating decisions? Also, in case of direct operators, how much of the historical track record is attributable to the allocator?
2. Legacy assets – is it better to not be "burdened" by 2006/7 vintage legacy assets or is it better to be able to prove how you worked them out?
3. What skills and expertise are investors looking to find in Emerging Managers that they would not find in more established managers?
4. "Allocator" vs. "Operator" – advantages/drawbacks within the emerging manager universe
5. What specific attributes (e.g., track record, ability to scale up a strategy, prior fiduciary experience, reporting capabilities, etc.) distinguish an "institutional quality" emerging manager (i.e., someone who has the potential to attract a direct investment from institutional investors), as opposed to the typical local operating partner of an opportunity fund? In other words, when is an allocator still valuable between the LP and operator?

6. How much track record and tangible realization do LP's expect in Fund I before committing to Fund II?
7. How do we convince potential LPs that our track record is our track record and not that of our one-off capital partners? When discussing the opportunities that we have missed due to lack of discretionary capital, the counterpoint is often raised that our capital partners have probably also saved us from deals we should not have done. What is the best way (if any) to dispel this perception?
8. Given the adverse effects of the recession, how much is an emerging manager penalized for performance affected by the recession? How do investors underwrite an investment manager with a track record largely produced throughout the recession?

Fundraising and Due Diligence

1. How can investors help emerging managers be better prepared for fundraising?
2. How can emerging managers effectively 'tell their story"?
3. Would really like to understand how to position our business to make it most appealing to potential investors. What can we do to be more seriously considered by them?
4. Will institutional investors really participate in a first close?
5. It would be helpful to hear from LP's what their frustrations are with the process of connecting to GP's, particularly new GP's. Hearing real stories from LP's about their daily routines and what prevents them from being responsive to GP's and works and what turns them off might go a long way to preventing the frustrations and inefficiencies of the current process.
6. How often do you discover a new LP at a conference (PREA, VIP, etc…)?
7. What captures your attention and compels you/your firm to proceed with deeper firm due diligence? What pushes you away?
8. How Emerging Managers can best differentiate themselves from established Managers and meet the needs of investors.
9. Better understand how LP's screen fund offerings and select potential managers.
10. Is it all about relationships, or can we get vetted alone with just an outstanding work product?
11. What are due diligence checkpoints and are standard questionnaires acceptable?
12. What makes an RFP stand out from others? (Especially if the institution has not previously worked with the manager.)
13. What are an emerging manager's chances of completing a successful fund raise today if they are not an MWBE?

Placement Agents

1. Institutional investors' candid views on use of placement agents.
2. LP expectations for emerging managers regarding the payment of placement fees and the level of GP co-investment.
3. What is the pricing for placement agents? What are the alternatives?

Consultants, Advisors and Fund-of-Funds

1. What is the best way to engage with Investment Consultants and thereby gain access to larger institutional investors?
2. What is the future of fund structure? Co-mingled funds are currently out of favor, talk about structures for club deals, etc.
3. How do LPs use consultants? There are many misperceptions about how consultants work, their degree of influence of manager decisions for their clients, etc.

4. Some investors solely rely on consultants or investment managers for their fund investment recommendations. However, many consultants and investment managers do not have an incentive to underwrite and recommend emerging managers as the return on time invested is greater for these consultants on large, more established managers. How can an emerging manager attract an investor that would otherwise have an interest in the fund by either bypassing the consultant or getting the consultant to objectively focus on the fund?
5. What are the best approaches to working with consultants? How much of your firms fundraising time should be spent meeting with consultants, completing database requests etc.?
6. What can consultants and advisors do that would be helpful to best position emerging managers for success?

Deals

1. What is the competitive role of non-institutional capital and its effect on pricing and demand in the markets in which emerging managers source deals?
2. Can emerging managers compete in deal sourcing with more established platforms?

Market

1. Are investors more or less likely to invest with emerging managers given the recent downturn in real estate markets and uncertain economic environment?
2. What are current LP preferences? What does their outlook look like for 2012 and what has changed since 2011?
3. What are GPs seeing out their? How has the quality of deals changed in the past 12 months and what is their outlook for 2012?
4. Given the oversupply of capital for Core investments, where are investors deploying their Core allocations?
5. What is driving the slow pace of allocation decisions? Is there just no urgency to invest right now? And if so, how does this cautious pace mesh with your interest in supporting the development of emerging managers who are currently trying to raise and invest funds?

Information and Reporting

1. What information do you want to see and how often? How often do you want to hear from fund-raising vultures like us?
2. How best to work with/communicate with LPs as you build the relationship?

After Closing

1. When things went bad in the last cycle, we have heard that some managers handled things really well in the eyes of the institutional community and others did not, would like to hear examples of what managers did well that were well received by investors in light of announcing impending losses.
2. What do LPs believe is the most appropriate and compelling manner for an adolescent emerging manager to become a mature manager?
3. From the EM point of view, what mentoring activities are most useful?
4. From the EM perspective, what are the most challenging aspects of managing organizational growth?
5. What is most important to LP's in terms of 're-upping' for future funds?
6. What mistakes have other GP's made that have tarnished their credibility with LP's? What lessons can we learn from those mistakes?

7. How would the limited partner community like to see their managers grow, given the negative correlation between fund size and performance? Should it be with a complementary core strategy? Regional growth with the same value-added strategy?