

AUGENTIUS

A GUIDE TO:

SETTING UP A FIRST TIME PRIVATE EQUITY AND REAL ESTATE FUND



LEAVING THE COMFORT OF AN ORGANISATION AND STEPPING OUT TO SET UP YOUR OWN FUND MANAGEMENT BUSINESS, AND YOUR OWN FUND, IS A DAUNTING PROSPECT. FEW HAVE BEEN INVOLVED IN ALL ASPECTS OF THE BUSINESS IN THEIR PREVIOUS ROLES. AND FEW HAVE SET UP THEIR OWN BUSINESS BEFORE. THERE ARE MANY UNKNOWN. OFTEN THE PROCESS IS FAR MORE COMPLEX THAN EVER ANTICIPATED. AND MORE OFTEN THAN NOT IT TAKES LONGER AND IS MORE EXPENSIVE THAN EVER CONTEMPLATED.

AUGENTIUS HAS, SINCE 2002, HELPED NUMEROUS NEW FUND MANAGERS SET UP THEIR FUNDS AND THEIR BUSINESSES. YEARS LATER THESE MANAGERS ARE STILL DELIVERING SUCCESS AND RETURNS TO THEIR INVESTORS.



1 THE TEAM

Raising a new fund will take longer than you think, maybe even 2-3 years.

- Do you and your colleagues have sufficient funding to help you get through this period?
- Are your partners and families prepared to support you through this difficult and stressful time?

We have seen groups fail simply because they ran out of funds and had to return to normal employment. Some groups help to finance this by syndicating their Management Company interests to third parties. This can be expensive, but it may be a necessary evil to allow a Manager to proceed to achieve a first close.

Are you a “Real” team?

- Can you live and work together for the next 15 years as a minimum.
- Can you spend hours together at airports? (some have been even known to share bedrooms on fund raising trips to save costs!)
- Can you really all get along? The initial stages are some of the most stressful and we have seen teams “fall apart” during the process. Prospective investors will also form opinions of this throughout the process.

But “living” together is one thing – investors will want to see a team that has, and can, work together to produce results. The track record of the team – as a team – will be a critical success factor, or otherwise. If the team doesn’t have a track record together it will be difficult to attract investors. A clear and attributable track record for having led specific deals is critical – many people often try to take credit for deals that they have simply been a part of, and prospective LPs will quickly see through this.

Who will do what? There are a number of different roles to be undertaken within the business and thought and attention must be given to this – investors will ask questions about some of the roles:

- Who is the Principal? Is there to be one? – this is likely to be very obvious.
- Who is best at marketing the fund? – this isn’t automatically the Principal, others may be better at the job – and will this person maintain an Investor Relations role?
- Who will take responsibility for the legal process? All will contribute and review the documents but one person managing the overall process will create efficiency (probably reducing costs) and allow others to focus on other tasks.
- Who will be the CFO? Are you able to afford one in the early stages of the fund? Most funds aren’t and the financial and fund reporting aspects become the responsibility of one of the Partners. Will this person also be the Anti-Money Laundering Officer and Compliance Manager – probably required to meet regulatory requirements.



2 THE STRATEGY

This may be an easy one to answer but:

- What is the investment strategy? Remember “generalist” funds are no longer attractive to many investors.
- Is it a strategy that is in demand from investors?
- Does the team have credible track record in this strategy?

Fund terms need to be determined – avoid anything outside of the norm (standard 2 & 20 approach to Management Fee and Carried Interest is still the norm). LPs are approached by so many Managers that they often look for an excuse to not engage, and terms outside of the norm can be an easy way for them to disengage.

Approach to Co-investment rights – will these be offered? If so, to whom? Any fees to be received for these co-investment transactions? Investors are more often looking for these so the team should be clear, in advance, as to the approach to be taken.

Skin in the game – LPs will expect a Management team to make a significant personal contribution. What can the team afford? How will this be financed? LPs generally prefer this to not be a Management fee offset if possible.

3 THE FUND STRUCTURE

What will it be – a Partnership; a Corporate, Listed, Unlisted? The answer should be “what your investors are comfortable with.” Consideration must be given to investor requirements.

Where will it be domiciled? US; UK; Guernsey; Jersey; Luxembourg; Cayman; Singapore; Mauritius; Hong Kong; etc. Again it should be what your investors are comfortable with. But do keep it simple. Onshore funds tend to be cheaper to set up and maintain than offshore funds – but certain investors may want certain structures. At the end of the day you are primarily creating a financial product to meet the needs of your investors.

How big will the fund be? That depends on the type of investments being made – Development Capital needs 100m; an Infrastructure fund perhaps 1bn – but remember investors have minimum subscription sizes and maximum percentages of a fund they can invest into. If the fund is too small they may not be able to subscribe.



4 THE FUND RAISING PROCESS

This will be a long and tortuous process – we know of clients that have had over 400 meetings to secure their first fund of circa 40 investors. Don't under-estimate the time, cost and effort involved.

The process will be time consuming, tiring and often demotivating – a real test of stamina.

Consideration should be given to appointing a placement agent:

- They have years of experience of raising funds, they know how to do it, who is likely to invest in your fund and the right people to speak to
- If a placement agent is prepared to invest time and resources in your team then you know there is a strong likelihood that they will be successful. If they aren't prepared to back you.... then they are telling you something
- They will help you with the preparation of presentations and rehearse the team

A Cornerstone Investor is key – does the Management team have someone who will back them materially, based on past performance? This will greatly assist the Fund Raising process. But often these parties will want a piece of the G.P. and / or preferred fee arrangements (but remember you need a Fund 1 before you can have a Fund 2, so may be necessary to do this).

Try to limit the number of closings that you have to say 3 or 4. We have experienced clients who have had 8 or 9 closings – and this is expensive and time consuming.

Data room – to use an electronic one or not? Takes time to populate and manage, and incurs additional costs, but has largely become the norm.

THE MOST IMPORTANT ADVICE

Talk to as many people as you can – lots of people are there to help you.

Placement Agents, Fund Administrators, Auditors and even other Fund Managers will all give help and share experience for free. Lawyers will generally give the initial meeting for free but after that, often, the “clock is on”.

Be prepared – have ideas as to the structure and domicile of the fund you want to set up. Walking into an advisors office with a “blank sheet of paper” can be a very expensive exercise.

The process will take longer than you think – be prepared for this, ensure you have the time, money and stamina to make it to the end!



THE TO DO LIST

DOES THE TEAM HAVE A TRACK RECORD TOGETHER?

Augentius has worked together with new teams in the past to model track records – we have the accounting expertise and knowledge to assist.

WHO WILL TAKE WHAT ROLES?

There needs to be defined roles within the business – especially if the business is to be regulated. Augentius can help the team to understand what is involved and provide help and support.

BUILDING THE TEAM

Do you have someone in place to fulfil the CFO role? Prospective investors will expect someone to be filling this role, and not one of the deal partners. Augentius can introduce you to appropriate recruitment agents and has a database of CVs from industry veterans who may be able to step into such roles quickly.

WHAT IS THE FUND STRATEGY – IS THIS REPLICATED IN THE TRACK RECORD?

Augentius can review draft PPMs to consider if this clearly comes across in your documents.

WHAT SORT OF STRUCTURE AND DOMICILE WILL THE FUND TAKE?

There are different structures and domiciles to be considered. Augentius, along with others, can give help and guidance as to what is currently being seen in the market.

ARE YOU USING AN OFFSHORE FUND?

If so you will need offshore resident Non-Executive Directors to manage the entity. Augentius maintains a data-base of appropriate potential Directors and can make the relevant introductions.

WHAT REGULATORY APPROVALS WILL BE REQUIRED?

Once the fund structure and domicile have been determined consideration will need to be given to regulatory approvals. Augentius can assist with fund regulatory applications dependent upon the domicile to be used.

WILL A PLACEMENT AGENT BE USED?

Augentius knows the industry leading teams – talk to us and we may be able to introduce you.

WHICH FIRM OF LAWYERS AND AUDITORS WILL BE USED?

Similarly we know the industry leading teams – again, talk to us and we may be able to introduce you.

PREPARATION OF PITCH BOOK AND PRESENTATION PRACTICE

This will be taken care of by the Placement Agents if being used – if not we can introduce you to industry experts who can help and guide in this exercise.

BUILD ELECTRONIC DATA-ROOM

Augentius can provide market leading technology which can be licensed at a very low 12 month fixed price for our clients. We help to populate the data room and give it the preferred look and feel for each client.

PREPARATION OF INVESTOR REPORTS – MAY BE REQUESTED DURING FUND RAISING

Augentius tailors all investor reports to the needs and wants of each firm. Individual investors may have specific needs, either in terms of information and data, or in respect of delivery mechanisms using technology – all of these requirements can be provided. Data can be manipulated in whatever form is required by investors including ILPA Reporting.

PREPARATION OF LEGAL DOCUMENTATION

This will be done by the Lawyers – but once the documentation is nearing the final version Augentius will carry out a review, from an operational point of view, to ensure all aspects are correct and workable over the life of the fund.

OBTAIN REGULATORY APPROVALS

This process could take up to 6 months depending on the Regulators involved. Augentius Compliance can assist and manage the process throughout.

OPEN BANK ACCOUNTS

It is now taking much longer for account openings with intense scrutiny being undertaken by most banks. This should be borne in mind in the launch timetable. A great deal of Manager and Investor KYC needs to be done especially if (i) anyone is deemed to be higher risk e.g. Politically Exposed Persons – ‘PEPs’ or (ii) if more exotic locations are involved in the structure / investment strategy. Augentius can contribute to the management of this process.

CARRY OUT INVESTOR DUE DILIGENCE AND KYC

Investor DD must be carried out at the time the investor joins the fund and then on an ongoing basis – at least annually. Augentius can provide this service to funds and managers and manage the overall process.

ACHIEVE 1ST CLOSE AND SUBSEQUENT CLOSES

Augentius will issue “Welcome Letters” to investors upon completion of the relevant Subscription documentation. We will also calculate and issue all relevant Drawdown Notices, monitor for receipt of funds into the Funds’ bank account and pay monies away in accordance with instructions. We will also carry out all rebalances between investors on subsequent closes.

Augentius is keen to support and help “new” fund management groups. As a consequence we undertake not to levy any charges for any pre-launch work we have completed until the fund achieves its’ first close. In the event that the fund does not achieve a close, no charges will be levied for the work done by Augentius.



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