

A guide to:

**Setting up a first  
time Private Equity  
and Real Estate Fund**

# Your needs. Our knowledge.

**We have helped numerous new fund managers set up successful funds and businesses that are still going strong today.**

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 unknowns. 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.

We're here to help.

“IQ-EQ provided invaluable support to our team throughout our first fund launch, through all the highs and lows of the experience.”

**Georges Asmar, President and Managing Director,  
LeadCrest Capital Partners**

# The team



Raising a new fund will take longer than you think, maybe even two to three years. 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's 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.

The track record of your team – as a team – will be a critical success factor, or otherwise. Investors will want to see a team that has, and can, work together to produce results. A clear and attributable track record of having led specific deals is critical. Never take credit for deals that you have simply been a part of, prospective LPs will quickly see through this. Thought and attention must also be given to who will do what roles – investors will ask questions about some of the roles.

## Ask yourself:

- 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?
- Can you live and work together for the next 15 years at a minimum?
- Can you spend hours together at airports?
- 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.
- Who is the Principal? Is there to be one?
- Who is best at marketing the fund?
- Who will take responsibility for the legal process?
- Who will be the CFO? Can you afford one in the early stages of the fund?

# The strategy

Your investment strategy should be clear and of interest to investors. For example, “generalist” funds are no longer attractive to many investors. Fund terms also need to be determined. Any terms outside the standard – 2 & 20 approach to management fee and carried interest, with an 8% hurdle – should be avoided. LPs are approached by so many managers that they often look for an excuse not to engage. Looking for terms outside of the norm can be an easy way for them to disengage.

Investors will expect to see details of co-investment rights. The team should be clear, in advance, as to the approach to be taken. LPs will also expect a management team to make a significant personal contribution. LPs generally prefer this to not be a management fee offset if possible.

## Ask yourself:

- What is the investment strategy?
- Is it a strategy that is attractive to investors?
- Does the team have a credible track record with this strategy?
- Will co-investment rights be offered? If so, to whom?
- Are any fees to be received for these co-investment transactions?
- Will the management team make a significant personal contribution?
- If so, what can the team afford?
- How will this be financed?



# The fund structure

Consideration must be given to investor requirements when determining the best structure for your fund. Whatever the structure it should be one that your investors are comfortable with. The same holds true when deciding where to domicile your fund, but do keep it simple.

With respect to the size of the fund – it will depend on the type of investments being made. Development capital needs USD100m, whereas an infrastructure fund needs perhaps USD1bn. Remember investors have minimum subscription sizes and maximum percentages of a fund they can invest into so if the fund is too small they may not be able to subscribe. Ultimately, you are creating a financial product to meet the needs of your investors.

## Ask yourself:

- What kind of structure will it be? A partnership, a corporate, listed, unlisted?
- Where will it be domiciled? US, UK, Guernsey, Jersey, Luxembourg, The Netherlands, the Cayman Islands, Singapore, Mauritius, Hong Kong?
- How big will the fund be?



# The fund raising process



This will be a long and challenging process. We know of clients that have had over 400 meetings to secure their first fund of circa 40 investors. Don't underestimate the time, cost and effort involved.

Consider whether to appoint 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. They will also help you with the preparation of presentations and rehearse the team.

A cornerstone investor is key but often these parties will want a piece of the GP and / or a preferred fee arrangements. Remember you need a Fund 1 before you can have a Fund 2, so it may be necessary to allow this.

Last but not least, closings are expensive and time consuming so try to limit the number of closings that you have to say three or four.

## Ask yourself:

- Does the management team have someone who will back them materially, based on past performance?
- Do you need an electronic data room? They do take time to populate and manage (and they incur additional costs), but they have largely become the norm.

# To do list

- Look at the team's track record**

We have worked together with new teams in the past to model track records – we have the accounting expertise and knowledge to assist.
- Decide who will take what roles**

There needs to be defined roles within the business – especially if the business is to be regulated. We can help the team to understand what is involved and provide help and support.
- Build 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. We can introduce you to appropriate recruitment agents that have a database of CVs from industry veterans who may be able to step into such roles quickly.
- Decide your fund strategy - is this replicated in the track record**

We can review draft PPMs to consider if this clearly comes across in your documents.
- Determine the sort of structure and domicile the fund will take**

There are different structures and domiciles to be considered. We, along with others, can give help and guidance as to what is currently being seen in the market.
- Decide whether to use an offshore fund**

If you do you will need offshore resident non-executive directors to manage the entity. We maintain a database of appropriate potential directors and can make the relevant introductions.
- Clarify what regulatory approvals will be required**

Once the fund structure and domicile have been determined consideration will need to be given to regulatory approvals. We can assist with fund regulatory applications dependent upon the domicile to be used. But beware this potentially could take up to six months; don't leave it too late.
- Decide whether to use a placement agent**

We know the industry leading teams – talk to us and we may be able to introduce you.
- Decide which firm of lawyers, auditors and tax advisers to use**

Similarly we know the industry leading teams – again, talk to us and we will be able to introduce you.
- Prepare a pitch book and practice your presentation**

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 an electronic data room**

We 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.
- Prepare investor reports - these may be requested during fund raising**

We tailor 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.
- Prepare legal documentation**

This will be done by the lawyers – but once the documentation is nearing the final version we 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.
- Decide whether you will need a depositary**

Are you going to have German or Danish investors? Will you have a portfolio in excess of €500m? If so you may need to appoint a depositary for your fund. We can help provide the services you need.
- 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. We 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. We can provide this service to funds and managers and manage the overall process.
- Consider other regulatory issues**

Depending on fund domicile and investor locations you may need to do additional regulatory registration and reporting. This may include preparing for AIFMD reporting across Europe or registration to support FATCA and the OECD's Common Reporting Standard. We can help you with all of this work.
- Achieve first close and subsequent closes**

We 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.

## About us\*

IQ-EQ is a leading investor services group that combines global expertise with an unwavering focus on client service delivery. With a team of 4,300 people operating across 24 jurisdictions, we support fund managers, global companies, family offices and private clients operating worldwide - including 11/15 private equity firms\*\*.

## Key contacts

If you'd like to speak to us about setting up a Private Equity and Real Estate fund, simply contact one of the team and we'll be in touch.



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\*Information correct as of 6 October 2022

\*\*According to the Private Equity International (PEI) 300 top PE global firms list

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