

PRIVATE EQUITY

international

Multiple use PDF

Conditions of use: This PDF is republished from Private Equity International magazine and is for multiple use. The format and contents of this article remain the intellectual property of the publisher, Investoraccess Ltd.

Multiple use means that this article may be reproduced or transmitted in **electronic format**. It may not be resold in any form. Colour reprints of this article are only available from the publisher and can be ordered by calling +44 20 7566 5444. You may not use this PDF to produce a colour reprint - this is an infringement of the publisher's copyright.

Whilst every effort has been made to ensure the article's accuracy, the publisher accepts no responsibility or liability for any claim relating to the accuracy of its content.

Investoraccess Ltd will rigorously prosecute any infringement of these terms and its copyright.

© Investoraccess Ltd 2006

Second Floor
Sycamore House
Sycamore Street
London EC1Y 0SG
Tel: +44 (0)20 7566 5444
Fax: +44 (0)20 7566 5455

Less glitter, more substance

More and more, GPs are mindful that how well the annual investor meeting is carried off can deeply impact their LPs' perception of how well the firm runs its day to day operations. From the keynote speaker to the wine list at dinner to the inevitable slide show presentation, the annual meeting is the definitive IR exercise for GPs, offering an opportunity to either impress or disappoint one's investors. Most LPs certainly have several reference points for comparison, as a typical institutional LP might attend 50 to 100, or perhaps even more, annual investor meetings each year.

However, the private equity annual investor meeting was once thought of as a forum where function took a backseat to form. While form remains important in providing a framework for conveying a message to LPs, the culture of hosting lavish affairs held in exotic locales and peppered with celebrity speakers - without a strategic purpose in mind - is clearly becoming less and less mainstream among GP groups.

Particularly as GPs' investor bases grow in both size and sophistication, there has been a trend toward holding more streamlined annual meetings. Many GPs say they are increasingly receiving feedback from their limited partnership to tone down the entertainment and ratchet up the education factor.

"The annual meeting is a very important part of our communications program, and we use it as an opportunity to discuss with our LPs our strategy and the execution of that strat-

LPs expect much more these days from the annual investor meeting. GPs who aim for par are missing a key opportunity to differentiate themselves. **By Judy Kuan**

egy," says Dan Yih of Chicago-based private equity firm GTCR Golder Rauner. As chief operating officer, Yih is heavily involved in the planning and execution of GTCR's annual investor meeting, held every April with around 75 to 100 LPs in attendance.

At San Francisco-based venture capital and public equities investor Crosslink Capital, the annual LP meeting is the largest line-item expense in the firm's modest marketing budget. According to Bill Nolan, a general partner responsible for the firm's client services and marketing activities, over the course of a year, the investor meeting comprises about one-third of the firm's marketing budget.



St. John: LPs want information

Mission critical

Clint Harris, a co-founder and managing partner of Wellesley, Massachusetts-based fund of funds Grove Street Advisors, sees a wide and varied range of approaches to holding these meetings. "To a certain degree, it depends on the mission of the meeting. We are comfortable with that," says Harris.

Some firms conduct their annual investor meeting more as a business meeting, where investors are ushered in for a relatively speedy two- to three-hour session. During this time, the GP provides an overview of how the fund is performing and offers LPs a chance to ask questions. For instance, GTCR's investor meeting comprises a short and efficient meeting starting in the morning and lasting until one or two o'clock in the afternoon. During this time, the firm's senior principals discuss the activities of its funds and portfolio companies.

“Other [GPs] want to use it as a chance to socialize with LPs and allow them to get to know a broader range of people than they would see otherwise, or to get into some real detail about what the GP is doing,” says Harris. He notes that more socially oriented meetings - such as inviting LPs to a resort and arranging a day of golf - can further develop the GP-LP relationship. “You get to know someone pretty well when you go around playing golf with them.”

“We take the annual opportunity to talk to all our investors in one go extremely seriously. It’s a privilege to be able to bring them all together in one place and tell them about what we have been up to,” says Paul Marson-Smith, chief executive of UK mid-market firm Gresham Private Equity. “We have the luxury of this being a relatively small investor group - about 20 LPs - and therefore we can treat them almost like a small family.”

Content is key

Much of the growing LP preference for annual meetings that involve less pomp and circumstance can be attributed to the growing institutionalization of the private equity asset class, say many in the industry. “LPs have become a much more sophisticated group,” notes Marc St. John, a senior managing director at global buyout firm CVC Capital Partners. “In the old days, the meetings were more about golfing and having a good time. That’s not what happens anymore. Investors need and want information. I think what people will find more of, and what we try to do, is to create a scenario where we engage in a dialogue on what has gone right with our portfolio investments and what hasn’t. Overall market awareness is also critical, as it has such an impact on the business and its returns.”

According to Simon Havers, head of European mid-market private equity firm Granville Baird Capital Partners’ UK team, the firm is modifying its investor meeting program in response to changing LP preferences. Starting this October, Granville Baird will be holding its one-day LP meeting within the firm’s own offices.

“For some years, we have taken our investors to a nice hotel and held a nice dinner as part of the overall investor day. The feedback we have had is they prefer something shorter and briefer, and purely focused on information exchange,” says Havers. “It could be summarized as investors saying they don’t



Havers: approach is evolving

Not all people are natural-born investors, and at not all investors are natural-born public presenters. Enter Maria Frantz of Stone Communications, a consulting firm focusing on coaching financial services and private equity executives on “high-stakes presentations.” Frantz - who has advised the likes of Warburg Pincus, Mobius Venture Capital and Lake Street Capital - offers some best practices on preparing and delivering information to investors at annual meetings:

- **Reinforce the GP’s core story:** “At an LP meeting, the firm should still reaffirm LPs’ reason for investing. Remind them who you are and what your firm does, even if they have heard it before. Highlight your firm’s differentiation. It is very important to help clarify the strategy and position of the firm for the LP. The meeting is an opportunity not just to educate investors on performance, but also to remind LPs why they invested and why they want to continue the partnership.”

- **Be transparent with respect to portfolio company performance:** “This is a tough one because GPs want to have the appropriate level of detail to answer LPs’ questions. We often recommend that GPs use a consistent slide format - this builds credibility and trust and is more efficient. GPs also should provide a consistent message with respect to troubled companies. We encourage them to be open, but also to have everyone across the firm responding from the same play books and presenting a unified message of the firm’s take on individual portfolio companies.”

- **Showcase a broader spectrum of the firm as speakers:** “Spotlight the best speakers, but make sure everyone gets some airtime, so LPs get a broader sense of the team.”

- **Establish a productive preparation process:** “Get consensus on what the firm wants to present as the key messages and then plan on how to deliver them. Part of that is creating a timeline for prepping, and taking time to noodle over those messages and themes that GPs want LPs to take away. Have one or two dry runs for everyone to rehearse and get agreement over the Q&A, both at the office and at the venue. You can never be too prepared for a presentation.”

want us spending the management fee on entertaining them. They would rather we spend it on investing the money better.”

These days, it seems that the frills offered at an LP meeting have less pull on investors’ heart strings. Indeed, some investors are wary of entertainment and perks that to them seem over-the-top. “My wife has told me to stop bringing home briefcases,” says Harris humorously, regarding GPs’

handing out gifts to their investors at these meetings.

Rather, a well-thought out and engaging flow of information from the GP tends to be much more well received by LPs. "Content is key, although it's nice to have it in an enjoyable setting," says Wes Raffel, a general partner at bicoastal venture capital firm Advanced Technology Ventures.

Therefore, what a GP presents - be it about its portfolio companies, its market, and the management company itself - and how this information is presented have become paramount in the planning of the annual investor meeting.

Marson-Smith says he takes a very "straight-forward approach" when deciding on what to present to LPs at Gresham's annual meeting.

"I rewind back to the proposition that they bought and invested in, which is partly to do with the market and our position in the market, and partly to do with our strategy and philosophy. We talk about what has changed in the world in the past year and how the macro affects us from top-down," says Marson-Smith. "Then we go into detail of some of the deals, typically focusing on those investments where there were significant developments, and we give them absolutely open book exposure to these investments."

GPs should be mindful of engaging their investors - and not lulling them to sleep. "One of the worse things you can do is stand up and spend two minutes talking about each one of your 60 portfolio companies. I would prefer you narrow it down to ones that have a meaningful impact on the fund, either positively or negatively, and focus on those," says Harris. He adds that bringing in two or three portfolio company CEOs who are enthusiastic about what their companies are doing can be a good supplement to presentations by the GP's investment professionals.

"Let them have enough time to get into detail, and use it as hype. It's fun to have a good CEO on a good company tell their story - it's a change of pace, and it's a good way to put a positive spin on the fund," recommends Harris.

At CVC, the investor meeting involves a series of breakout sessions to make the event more interactive, as it can be difficult for people to ask questions in a large group, says CVC's St. John. "Through the breakout sessions, we can promote effective discussions. We want our investors to leave with answers," he notes.

Part of effectively communicating with one's LPs at these events involves being open to LPs, and some firms are more so than others. "We are open to questions, and try to talk



Nolan: soliciting LP input



Harris: no more briefcases

about the businesses that are going well and also the ones that are not going well," says CVC's St. John. "There's very little that we can't tell our LPs," adds St. John, mentioning that the only real off-limits area is information on public companies in which CVC still holds shares.

Investors appreciate hearing both the successes and the non-successes within the GP's portfolio. Says Grove Street's Harris: "If you have a disaster and handle it well, then you create more loyalty than if you don't have the disaster at all. This is an opportunity to show LPs evidence that you trust them." Meanwhile, by not presenting a sense of transparency and trust in LPs, a GP risks landing out of favor with its investors.

Convey trust

However, while the entertainment aspects of investor meetings have undergone a major streamlining process, the organization of the meeting still requires a great deal of coordinating effort within the ranks of the GP. Aside from the content being presented at the annual LP meeting, the actual planning and execution of the meeting is a time intensive process requiring thought and attention to detail.

According to Bill Nolan, before he joined Crosslink Capital in 1999, there had not been a truly concerted effort to organize what he would consider a "meaningful, useful, annual meeting," he says. Prior to 1999, when Crosslink was the VC-investment arm within investment bank Robertson Stephens, Crosslink's annual LP meetings typically comprised a two to three hour meeting taking place in a conference room in New York City, coinciding with a Robertson Stephens research conference. "Our investors would be invited, but effectively three to five would show up," says Nolan.

What takes place today is much more comprehensive, says Nolan. Since Crosslink spun out and has grown to manage over \$1.1 billion, with more than 75 LP relationships, the firm has found that it needs a "robust" annual meeting to share the broader and more comprehensive data with investors.

Now the firm holds a half day session devoted to what has taken place at Crosslink in the past year from the standpoint of the business as a whole. The following half day session is then devoted to going through Crosslink's portfolio, fund by fund, with heavy involvement from the firm's investment professionals and portfolio company CEOs.

To tailor the program to LP preferences, Nolan begins solic-

iting input from Crosslink's investors two months prior to each year's meeting. "After six years, our LPs understand they can play a role in the process," says Nolan. "Now most of them are used to my soliciting Q&A, and most give pretty good input."

"We try to make it a useful networking event as well as an information gathering event. We want to understand what LPs want to get out of the meeting, and who they want to spend time with," says Crosslink's Nolan. To facilitate such interactions, Crosslink pre-arranges one-on-one meetings between the LPs and portfolio companies to take place over the course of the annual meeting.

In addition to making sure the program runs smoothly, there are other logistical aspects that GPs should be alive to, as certain aspects may give LPs a negative impression, be they intentional or not. This could come in the form of a firm handing out name tags that do not indicate which organization the attendees are from.



Marson-Smith: like family

"All of the people who work for the fund know those who don't work for the fund, and this sends a subtle sign that you don't want LPs to talk to each other," says Harris.

LPs greatly appreciate having access to data presented at the meeting. For instance, Granville Baird makes its annual meeting presentations available to its LPs on the firm's website. Conversely, handing out materials then demanding they be returned at the end of the session shows lack of trust in one's LPs. Similar slights, like flying through numbers orally and not giving LPs a chance to write them down, can offend LPs as well.

A poorly organized and executed event may lead investors to question a GP's competence in other spheres, not the least of

which being investing the fund and managing the portfolio. However, a well planned and thoughtful event that builds trust and the GP-LP relationship has high potential upside, most evident in the next round of fundraising. ■

> Saying 'no' to superstars

Clint Harris, managing partner and co-founder of Grove Street Advisors, says of high-profile speakers: "Some people bring in outside speakers, and that's not usually a bad thing, particularly if what they talk about is relevant. It gives a change of pace. If you bring in a good one, it's a positive, but you shouldn't feel obligated. If it's not a good presentation, then it's a waste of everyone's time."

Some annual investor meetings, particularly those organized by very large firms, include high-profile, celebrity speakers. Such speakers are often out of budget for smaller firms, and in any case, GPs report that their LPs aren't as impressed by oratorical firepower any more.

Wes Raffel, general partner at Advanced Technology Ventures: "We did have an outside speaker up until last year, but we are not doing it again. Our investors have said they would rather spend time talking to us than listen to an outside speaker. Over the years, we have had a lot of great speakers, including Susan Butcher, the champion sled-dog racer, and Apollo 13's mission commander Jim Lovell, but the feedback from investors was, 'That was wonderful, but we would rather have time with the speakers from the firm.'"

Simon Havers, head of UK team at Granville Baird Capital Partners: "I think our investors enjoy and appreciate receiving macro views on the lower midmarket where we operate from a third party, so we use our network to give them an independent third-party view on that."

Dan Yih, COO of GTCR Golder Rauner: "GTCR does not invite outside speakers to present. It is limited to our senior principals and portfolio company executives discussing the activities of each fund and our portfolio companies."

Marc St. John, senior managing director at CVC: "We don't have 'superstars' who come speak to our LPs, and as of yet, we have not invited outside speakers to our annual meeting. The speakers are typically managers and deal people presenting either live or via video."

Bill Nolan, general partner at Crosslink Capital: "Our speakers are typically comprised of our portfolio companies and people in Crosslink's inner circle. We don't think there is much value in having an outside speaker. That's not what our investors are looking for; they are looking for relevant information. If someone has an interesting perspective and are within our network, then they are probably a good fit."