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Why it’s now even harder for first timers

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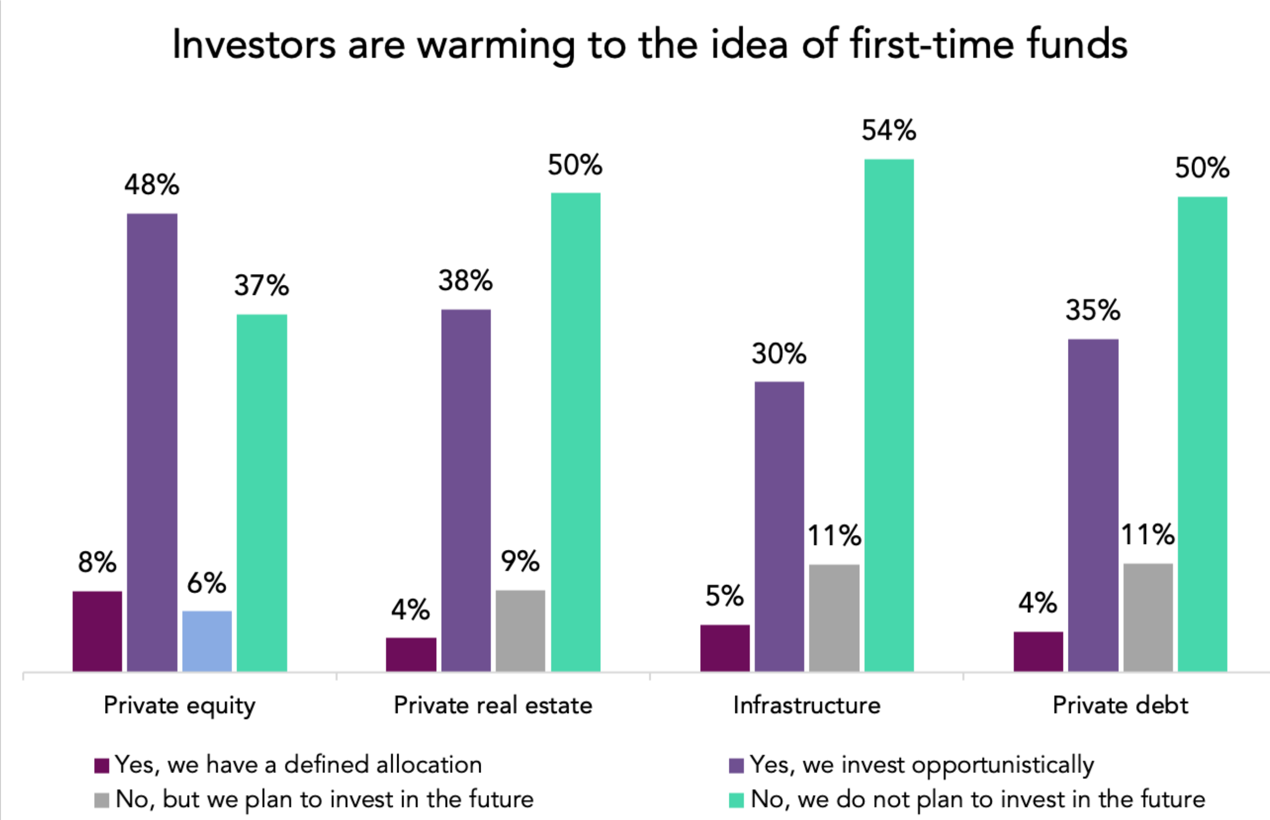

The lack of in-person meetings as a result of covid-19 is an added hurdle for debut funds, but a deal-by-deal approach could still win support.

First-time funds have not had an easy time amid a competitive fundraising environment and the rapid spread of covid-19 will only make it harder.

This is especially true for first-time fund managers which have not had in-person meetings with limited partners. With travel restrictions and emergency border closures happening across the world in a bid to stop the spread of the pandemic, any initial contact between LPs and GPs will get pushed back to who knows when.

While GPs and LPs have rapidly converted to video conferencing platforms in response to global health guidelines, the in-person chemistry is hard to beat. “A livestream or a Webex will never replace a first-time meeting. You simply don’t get that in-person chemistry check which is a vital part of cementing any partnership,” one source told us.

Few investors look to sponsor first-time funds. Nearly half of respondents in *PEI’s LP Perspectives Survey 2020* said they only invest opportunistically in first-time funds, while 37 percent said they do not plan to back such funds in the future.

But first-time funds are not off the table for LPs. Two attractive features are that these funds have no legacy portfolios to distract them, and they are often highly focused teams that are well aligned with LPs in terms of generating high returns and carry.

There could be an opportunity in this market environment for teams shifting from establishing a first-time fund to funding a pipeline on a deal-by-deal basis. In fact, market participants agree that deal-by-deal fundraising will be commonplace for first-time funds before travel allows mainstream processes to resume.

The only potential silver lining from a fundraising point of view is that, with extended final close deadlines driven by LPs' increasingly complex working environments, first-time managers will be able to use the additional time to advance their portfolios and close more investments in the fund.