

Fundraising transitions to the next normal, LPs approve virtual due diligence and plan new commitments, GPs kick-off new fundraisings in the Fall.

Contents:

LPs Getting Back to Work

LPs Approve Virtual Due Diligence

Increased Interest in Direct Deals and Secondaries

Importance of Q2 Numbers

Staying Top of Mind

We have been asked by many GPs in the recent weeks and months when fundraising will return to normal. Our response is that it won't for a while, this is the *next normal*; an environment that will likely be around for a while, where both GPs and LPs have to adapt to the challenges inherent in a world of social distancing and uncertainty.

In our discussions with investors, the consensus is that the Covid pandemic has pushed back commitment timelines an average of 6 months. When the pandemic hit, most LPs paused commitments and then picked work back up in late April and May, focusing first on reups and commitments in process. Although some LPs made decisions that no new commitments were to be made in 2020, most investors have planned new fund relationships in 2020 once reups are cycled through.

General Partners should expect and plan that fundraising timelines will be extended and may need to consider pushing out final closing timing to accommodate the delay from LPs. According to a recent Preqin report, of the funds closed in the first half of 2020, just 39% did so within 12 months, which compares with 52% in 2019. GPs should plan to give LPs more time to during diligence and some investors are just now beginning to look at new partnership commitments.

LPs Getting Back to Work

We have observed a marked change though in the last month as LPs begin work for year-end commitments. Over the month of July, we have observed a significant uptick in activity from LPs looking at new opportunities. July saw the highest amount of activity YTD from LPs inquiring about our current mandates and scheduling introductory zoom calls with clients. This has been in stark contrast from May and June where interest was muted towards doing work on new relationships.

For groups considering raising their next fund, now is a good time to begin planning to go to market. Brighton House is onboarding new mandates for post-Labor Day kick-offs and we are seeing many LPs plan out their pipelines for the next 6 to 9 months. New commitments are beginning to be made and GPs do not want to enter the market too late and miss being front and

center as LPs begin their work. The Fall will be a busy fundraising time as groups look towards Q1/Q2 2021 closes.

LPs Approve Virtual Due Diligence

In July Brighton House observed signs that investors are adjusting to the next normal. Several LPs remarked to us that they have approved plans to perform operational due diligence and make commitments virtually. It would have been highly unlikely pre-Covid for an LP to commit to a new fund/deal without meeting the manager but we are observing LPs adjust to the current environment in light of the fact that social distancing may be around for some time. A large institutional consultant we work with announced last month that virtual due diligence has been implemented as standard practice and that new commitments and approvals can be made if no in-person meetings are feasible. This is a positive sign as there was uncertainty around how LPs will be committing if they are unable to meet with a potential manager.

Increased Interest in Direct Deals and Secondaries

We have also observed an increase in interest from investors looking to gain access to direct deals and secondary opportunities. Since the beginning of the year, we have been contacted by several new firms seeking secondary opportunities. Also, many of our traditional LP relationships have remarked to us they are increasing their direct co-investment programs. The increased interest in these deals are a benefit to GPs as many are looking to unlock liquidity from previous funds so that their LPs can commit to new funds, or because the Covid pandemic created a need for new liquidity in mature funds as portfolio companies now have additional capital requirements. We have also seen interest in co-investment deals increase as many institutional and family office investors look to take advantage of the current market disruption to gain access to quality opportunities that may have been re-priced during the pandemic.

Importance of Q2 Numbers

Now that we enter H2 of 2020 Brighton House has also observed LPs requesting H1 fund performance from private equity clients as a diligence point to determine how the portfolio performed during the pandemic. Most LPs are looking to assess the performance of a GP's previous funds during the pandemic as an indicator to the strength of the investment thesis and the GPs ability to navigate difficult markets. We have seen LPs place importance, when looking at potential commitments to new funds, on how previous vintage funds performed during this time.

Staying Top of Mind

As fundraising begins to pick up again, we have been stressing to clients that it is imperative to create and maintain an active dialogue with potential investors to gain mindshare and drive interest. It cannot be overstated the amount of opportunities a typical LP is presented with and the firms that can stay top of mind for the LP have the highest likelihood of success. Brighton

July 2020

House has increased activities in creating additional content and thought leadership on current fundraising mandates to deepen the level of LP engagement. We have also been advising clients to continue to message news and updates to LPs regularly as many investors are actively making decisions now for year-end and Q1 2021 commitments. The role of a placement agent and internal IR people to create long-standing LP relationships will be critical components to fundraising over the next 12 months.

We look forward to hearing from you with any thoughts or questions. Stay healthy!

Sincerely,

Sincerely,

A handwritten signature in black ink, appearing to read "Dan McDermott". The signature is fluid and cursive, with the first name "Dan" and last name "McDermott" clearly distinguishable.

Dan McDermott, CEO