

EMERGING MANAGER SURVEY 2017

THE BENCHMARKING TOOL FOR NEW PRIVATE EQUITY AND VENTURE CAPITAL FIRMS

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GEN II
FUND SERVICES, LLC

B Buyouts Insider

INTRODUCTION

Emerging managers often feel like they're operating in the dark. Sure, they share information and war stories with colleagues they meet at industry conferences. They also learn a great deal from talking with prospective investors on their fundraising road shows. But those interactions only go so far, and answers to basic questions remain elusive.

How many months can they expect to spend raising money before closing their fund? What percentage of emerging managers use placement agents to enhance their marketing efforts? What factors do institutional investors weigh most heavily when deciding to commit to an emerging-manager fund? What special incentives do emerging managers offer to entice early investors to make a commitment? How early do they engage with law firms, fund administrators and other key service providers?

Recognizing the importance of providing answers to these questions in an independent, statistical fashion, PE/VC publisher Buyouts Insider early this year partnered with fund administrator Gen II Fund Services, LLC to produce the first edition of our Emerging Manager Survey. We decided to conduct a detailed survey of the emerging manager market, promising an early look at the results in return for completed questionnaires. It seems we hit a nerve. More than 100 emerging managers and 40 institutional investors completed surveys this spring.

This report describes the results of those surveys, through both written analysis and through the presentation of tables and charts. We expect that both emerging managers and investors will find it to be a useful benchmarking tool. Let us know at the email addresses below how well we've succeeded—and how we can make future editions of the report even more valuable.



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TRUST THE VETERAN



BY JEFF GENDEL, MANAGING DIRECTOR, GEN II FUND SERVICES, LLC

For emerging private equity managers, the fund administrator's exceptional experience should be the key factor in the decision process.

The Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC, found that nearly 90 percent of the respondents cited “proven expertise and experience with funds like mine” as an “extremely important” or “very important” factor in choosing service providers, making it clearly the most important attribute when considering the choice of fund administrators, accountants, attorneys and other consultants. By comparison, only slightly more than a third of respondents cited “a prior relationship with the provider” or “LP recommendations or preference” as an important factor in that decision.

In serving emerging managers for over 25 years, we've found there's no substitute for relevant experience. Given the complexity and importance of the administrator's role servicing private equity funds and investors, it's vital that emerging managers partner with a provider that can demonstrate exceptional experience, understands the fund's unique needs and challenges, can seamlessly meet today's investor requirements, and can provide expert guidance to the management company and GP entities. And the best path to ensuring your service provider understands these needs is to know that they have extensive experience working with

similar emerging managers.

By their very nature, newly forming private equity firms tend to run lean and multi-task, and that requires partnering with experts that can free the principals up to focus on raising and deploying capital and managing the firm. An administrator that has a long-standing track record of working with emerging managers to help them navigate the opportunities and challenges of private equity entrepreneurship provides a critical edge for the members of the GP.

At Gen II, we've helped launch over 40 emerging managers. We intimately understand the pace, tension and requirements of that debut fund and of the firm and its principals. We act as a trusted partner offering independent and valuable guidance for our clients, over and above the fund administration services we provide. In addition to our vast experience with fund vehicles of all levels of complexity, Gen II's expertise extends to administration of management company and topco entities. This valuable service enables the emerging manager to gain the insight of our 25 years of working with founders and entrepreneurs on the management of their private equity firm. Our partnership approach to our business relationships is an important differentiator for the emerging managers on Gen II's platform.

For managers sourcing an administrator for their first fund, it is vital to look for several specific qualifications. The administrator should have an SSAE 16 (Service Organization Control Type 2 (SOC 1) Statement on Standards for Attestation Engagements No. 16) issued by the American Institute of Certified Public Accountants. This certification marks the passage of a crucial independent examination of the administrator's control environment, and is a must-have for sponsors and their institutional LPs. Both LPs and GPs want to know that the administrator has certified processes and procedures to do the work that's required. In fact, every prospective investor in an operational due diligence meeting that we participate in asks about the SSAE 16.

Any potential service provider should also be in compliance with the SEC's cybersecurity recommendations, as cyber risk and the security of investor data is top of mind these days among LPs and GPs.

The bottom line for any emerging manager is evident: Your fund administrator should enable the sponsor to be able to unconditionally "check all the boxes" that relate to investor operational due diligence.

Emerging managers should also expect the administrator to be able to evidence that client facing items are error-free. Gen II has met this requirement through the establishment of an internal quality control department, in order to be sure that there is an extra set of eyes reviewing all sensitive and client-facing transactions.

“ In serving emerging managers for over 25 years, we've found there's no substitute for relevant experience. ”

Focusing on the theme of relevant experience, the GP should review lists of the service provider's current GP clients to see if there are firms which the GP considers as peer organizations. As the survey indicates, requisite experience with funds similar to those of the sponsor is the most vital consideration. Exceptionally experienced fund administrators will also be able to provide the sponsor with timely market intelligence and benchmarking data from their past work with similar firms. The ability to offer insight into industry best practices is also extremely helpful for those GPs who are new to the principal and firm leadership role. So, while it is crucial for the service provider to evidence deep experience through working with like firms in order to merit consideration, these other highly value-added services provide the essential differentiation across service provider sectors.

In the overall analysis, an unwavering focus on private equity fund administration, senior team continuity, client retention rates, proven performance and in-depth industry knowledge are all key considerations in addition to prior experience, when choosing a fund administrator. These attributes have been long established at Gen II – and they are primary reasons why more emerging managers look to Gen II for their fund administration needs than anyone else in the industry.

At Gen II, we know that extensive fund administration experience, expert teams, a customized approach to each client, SSAE 16 certification, cutting edge technology, and independent quality control are what emerging managers seek. Ultimately, as the survey indicates, relevant experience is at the top of the list. Emerging managers will want the veterans on their side.

GEN II

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Description of services

Gen II Fund Services, LLC ("Gen II") is the largest independent private equity fund administrator, covering over \$150B of private capital and reporting to over 9,000 LPs on behalf of our clients. Gen II offers emerging manager sponsors the best-in-class combination of people, process and technology, enabling GPs to most effectively manage their operational infrastructure, financial reporting and investor communications.

In 2016, the four largest emerging managers that outsourced all selected Gen II for fund administration.*

*Source: Preqin

Administering over
\$150B
in private fund
capital

99%
client retention
rate

Over
90
sponsors

25
years of
fund administration
experience

Helped over
40
Emerging Managers
and Spin-out Groups
successfully launch

Service
Organization
Controls Compliant
(SSAE-16 SOC 1,
Type 2)

Administering over
2,000
fund entities

Dedicated service
team, led by a
Partner

Over
200
professionals

Servicing over
9,000
investors for our
clients

Enabling Emerging Manager Success.

Gen II has unparalleled experience working with emerging managers, spin out groups and first time funds. Gen II's clients leverage our deep relationships with LPs, LP consultants, and our 25 years of experience in firm and fund formation. We enable our clients to evidence best-in-class operations to investors, with the support of the fund administration industry's most experienced, best performing and longest tenured team.

Since 2010, our team has assisted over 40 emerging managers and spin-out groups, helping them to raise over \$20 Billion.

In 2016, the four largest emerging managers that outsourced all selected Gen II for fund administration.*

**Source: Preqin*

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**Trusted Partners.
Proven Experts.
Exclusively Focused.**

EMs SHOULD EMPHASIZE TEAM WHEN FUNDRAISING; GIRD FOR AN UPHILL CLIMB

BY DAVID TOLL, EXECUTIVE EDITOR, BUYOUTS INSIDER

Are emerging managers in tune with potential backers when it comes to anticipating what factors are most important to those backers in evaluating their funds? A recent survey by financial publisher Buyouts Insider and Gen II Fund Services, LLC finds that, to a surprising degree, they are.

You would think “track record” would rank high in importance with institutional investors as a factor in evaluating an opportunity. It does, of course.

And yet, interestingly, institutional investors rated “composition of team” and “investment strategy” as even more important factors than “track record” when it comes to evaluating emerging manager funds—see figure 35. About nine in 10 investors (90 percent) indicated that “composition of team” is either an extremely or very important factor in the investment decision; 85 percent said the same of “investment strategy.” Track record came in third place out of seven factors rated, at 73 percent.

Asked about the same group of seven factors, about nine in 10 emerging managers (91 percent) anticipated that “composition of team” would be an either extremely or very important factor for limited partners evaluating their funds—see figure 9. About eight in 10 (80 percent) indicated “investment strategy” and “track record” to be either extremely or very important factors.

By the same token, emerging managers correctly anticipated what factors ranked as least important to potential backers. It’s hard to find an investor these days that isn’t interested in co-investment opportunities. And yet just 43 percent of investors ranked “co-investment opportunities” as either extremely or very important factors in making an investment decision. An even smaller percentage of emerging managers, 28 percent, believed investors would find this to be an extremely or very important factor in their decision.

All told, Buyouts Insider and Gen II Fund Services surveyed more than 100 emerging managers this spring to learn more about their experiences on the fundraising trail. They grouped respondents into two broad categories—venture capital firms and buyout/corporate finance firms, the latter category including such strategies as buyout, growth equity and distressed debt/turnaround. To learn more about the buy-side of the equation they also surveyed more than 40 institutional investors that have

an appetite for emerging managers.

The surveys did nothing to dispel conventional wisdom that it’s an uphill climb for emerging managers seeking to raise money. For those that have closed their latest funds (excluding those with still-open funds), the median number of months it took to raise them was 17 months, or nearly a year and a half—see figure 17. In addition, more than half of all respondents (57 percent) said they offered co-investment rights as a sweetener to investors; 43 percent offered discounted management fees in return for larger commitments; and 27 percent provided investors with a piece of the management company/general partner. (See figure 10.) Such concessions suggest emerging managers face a discerning fundraising market where investors hold the stronger hand in negotiating terms and conditions.

Nearly four in 10 (39 percent) of all emerging managers surveyed also said they took on an anchor investor with more favorable terms—see figure 11. Anchor investors can provide fundraises with much-needed momentum; but potential investors may view the situation unfavorably if they feel the general partner has given away too much of the fund economics to the anchor investor.

The survey of institutional investors, meantime, suggested that emerging managers should expect to take some five meetings with investors before securing a commitment. It can take in the neighborhood of six to 12 months from first introduction to getting a signed commitment. (See figures 33, 34.)

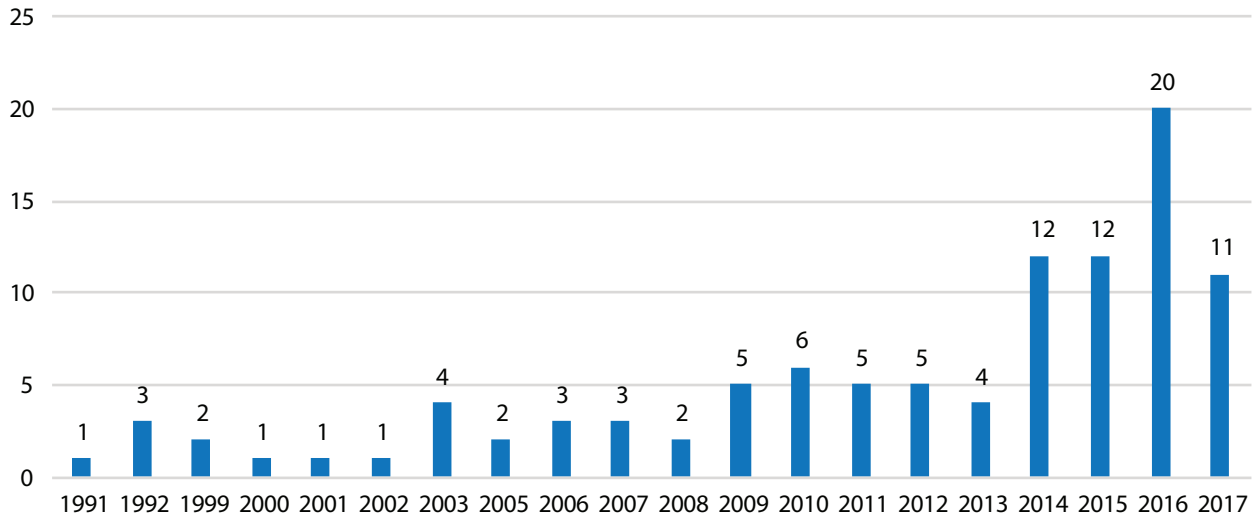
Where is the money coming from for emerging manager funds these days? That is another important question addressed by the emerging manager survey.

For emerging managers that have closed their latest funds, 22 percent of their capital came from family offices, the most of any category, and another 17 percent from money managers/advisors—see figure 21. That is consistent with conventional wisdom that family offices are especially open to backing emerging managers; they love getting in on the ground floor of new opportunities others haven’t heard of before. Public pensions, traditionally the biggest source of money for the PE/VC industry, account for just 11 percent of the money raised—although money managers/advisors may channel money on their behalf.

PE/VC EMERGING MANAGER SURVEY

Figure 1

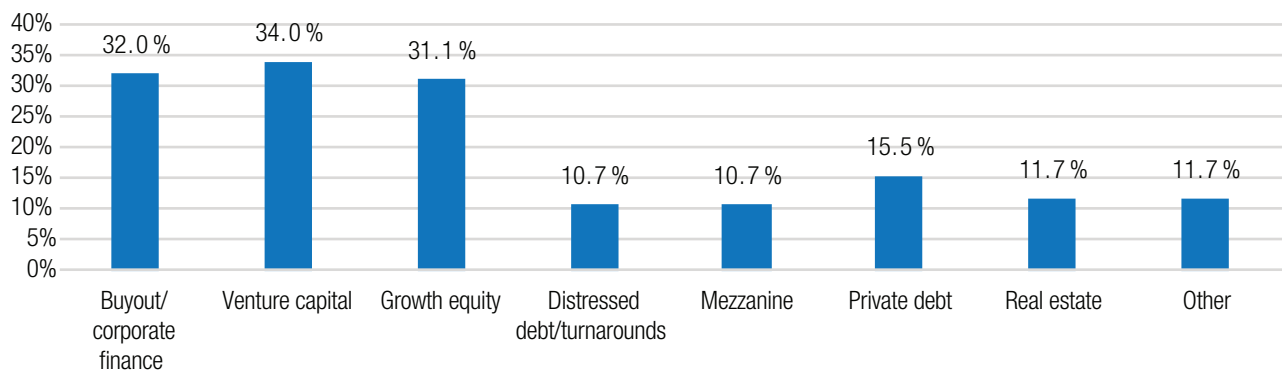
What year was your firm founded?



Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; note that some firms operate for years as family offices or independent sponsors before raising institutional money as "emerging managers"

Figure 2

What kind of investment strategy does your firm pursue? * (respondents could pick more than one)



Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC * Note that for the purposes of the rest of the survey, the buyout/corporate finance category includes growth equity, distressed debt/turnarounds, mezzanine, private debt, real estate and related categories

Figure 3

How many investment professionals work at your firm?

	Average	Bottom Quartile	Median	Upper Quartile
All	6	3	4	6
Buyouts/Corporate Finance	6	3	5	8
Venture Capital	5	3	3	4

Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; in cases where averages exceed upper quartile, large numbers toward the end of the range raised the averages

Figure 4

How many total people work for your firm?

	Average	Bottom Quartile	Median	Upper Quartile
All	13	4	6	12
Buyouts/Corporate Finance	12	5	7	12
Venture Capital	14	3	4	7

Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; in cases where averages exceed upper quartile, large numbers toward the end of the range raised the averages

Figure 5

What is the total committed capital to all your active funds? (\$mln)

	Average
All	195
Buyouts/Corporate Finance	242
Venture Capital	100

Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC

Figure 6

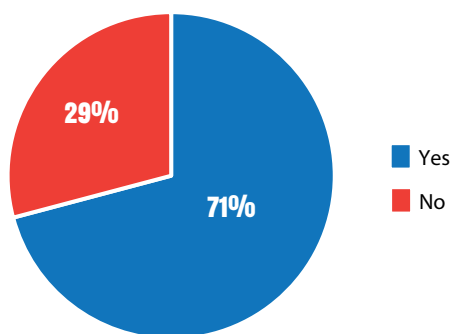
How many active portfolio companies do you have?

	Average	Bottom Quartile	Median	Upper Quartile
All	34	1	5	15
Buyouts/Corporate Finance	23	1	4	8
Venture Capital	50	3	14	25

Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; in cases where averages exceed upper quartile, large numbers toward the end of the range raised the averages

Figure 7

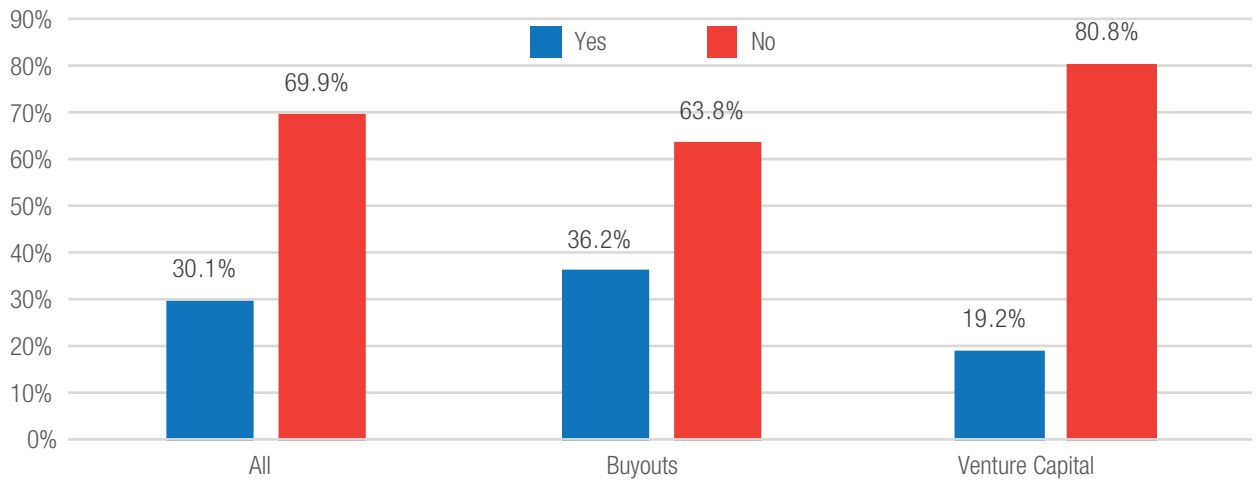
Are you currently in the market with a fund?



Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; all firms

Figure 8

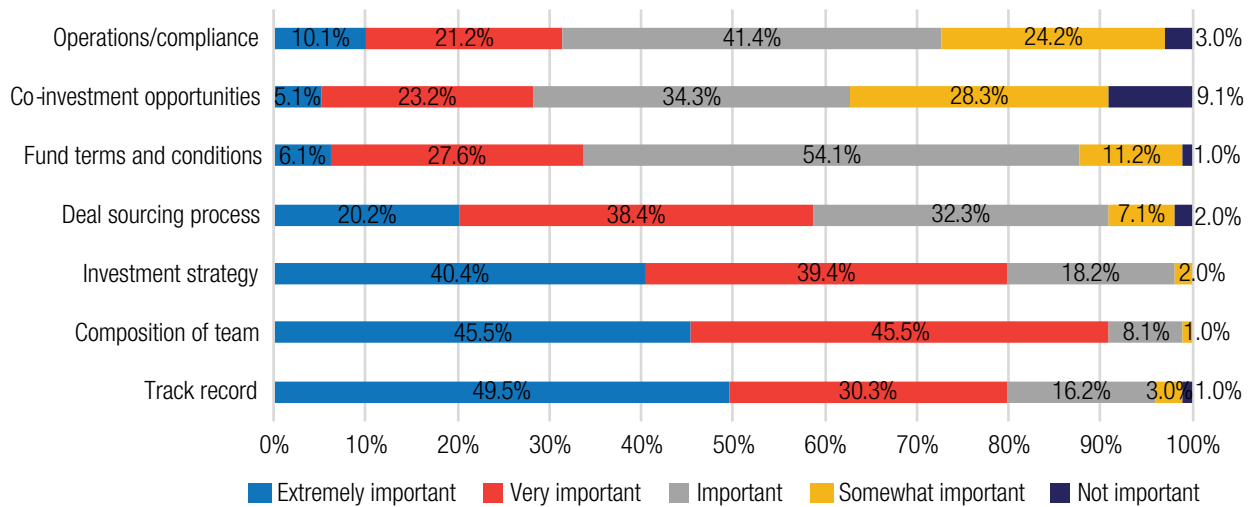
Are you using a placement agent?



Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; all firms

Figure 9

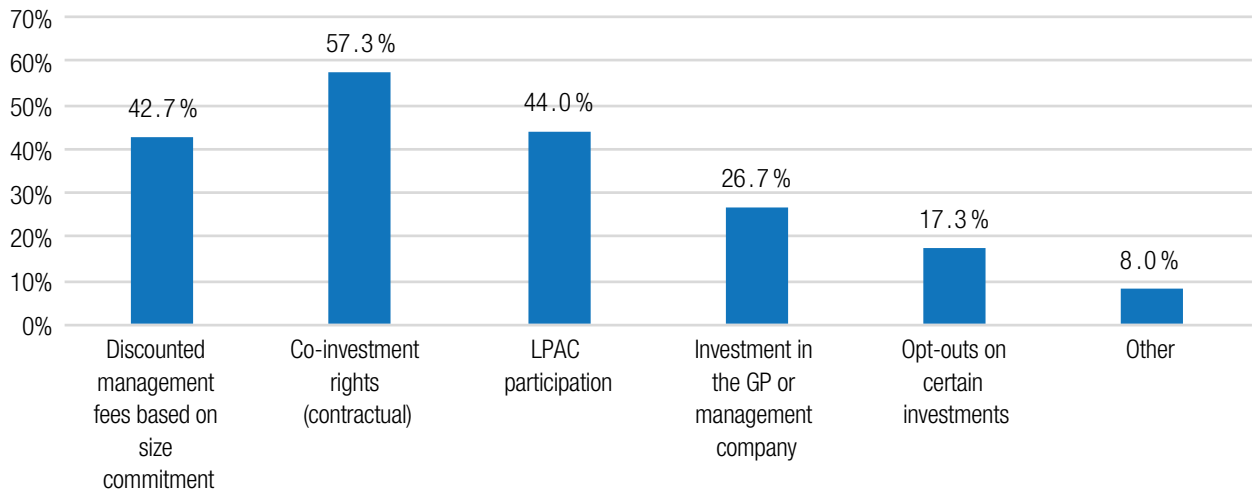
How important do you believe the following factors are for LPs evaluating your fund:



Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; all firms

Figure 10

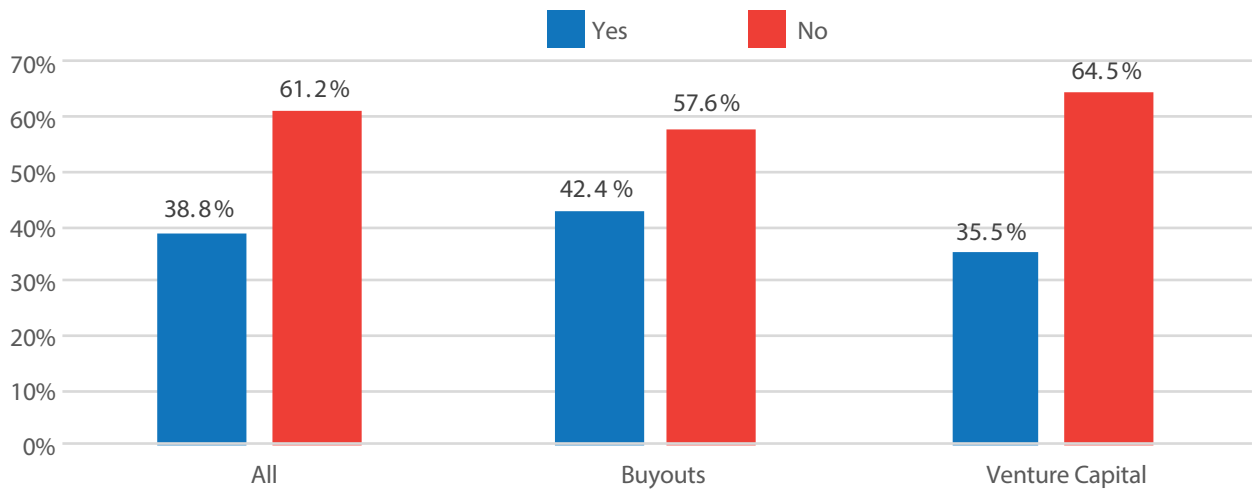
**Which of the following terms did you offer/provide to investors:
(respondents could pick more than one answer)**



Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; all firms

Figure 11

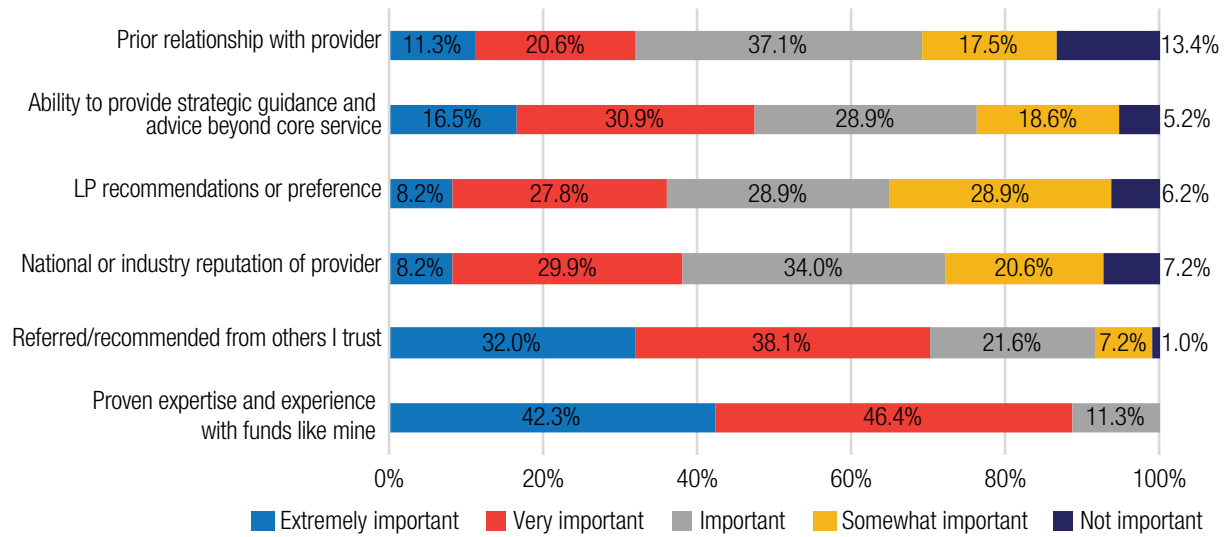
Did you have an anchor investor with more favorable economic terms?



Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; all firms

Figure 12

How important are the following factors in choosing service providers?



Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; all firms

Figure 13

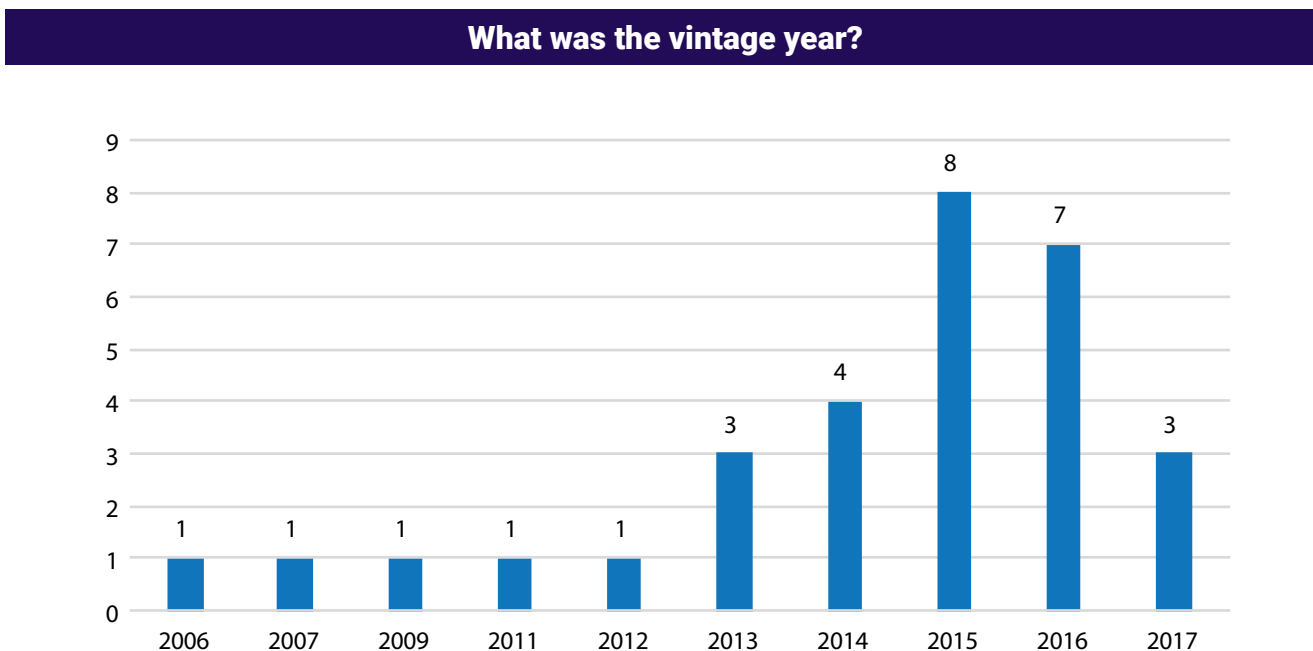
How many months in advance of the first closing did you engage with (or do you anticipate engaging with) the following professional services firms:

	Average	Bottom Quartile	Median	Upper Quartile
All	5	2	4	6
Fund administrators	4	2	3	6
Compliance consultants	4	1	3	6
Law firms	8	5	6	12

Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; all firms

FOR FIRMS WHOSE LATEST FUND IS CLOSED:

Figure 14



Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; note that some firms operate for years as family offices or independent sponsors before raising institutional capital as "emerging managers"

Figure 15

What was the target of the fund? (\$mIn)

	Average
All	173
Buyouts/Corporate Finance	184
Venture Capital	134

Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; firms with closed funds

Figure 16

What is the size of the fund? (\$mIn)

	Average
All	198
Buyouts/Corporate Finance	209
Venture Capital	154

Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; firms with closed funds

Figure 17

How many months did it take to raise the fund?

	Average	Bottom Quartile	Median	Upper Quartile
All	17	8	17	22
Buyouts/Corporate Finance	17	9	18	23
Venture Capital	17	8	8	20

Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; firms with closed funds

Figure 18

How many prospective investors did you meet with?

	Average	Bottom Quartile	Median	Upper Quartile
All	90	30	40	135
Buyouts/Corporate Finance	104	30	50	150
Venture Capital	41	35	40	40

Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; firms with closed funds

Figure 19

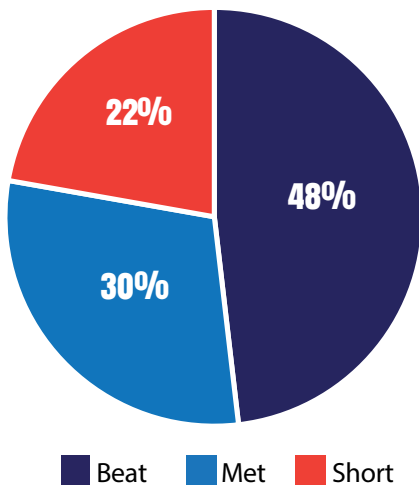
How many limited partners do you have?

	Average	Bottom Quartile	Median	Upper Quartile
All	30	7	20	35
Buyouts/Corporate Finance	31	7	22	36
Venture Capital	17	10	20	20

Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; firms with closed funds

Figure 20

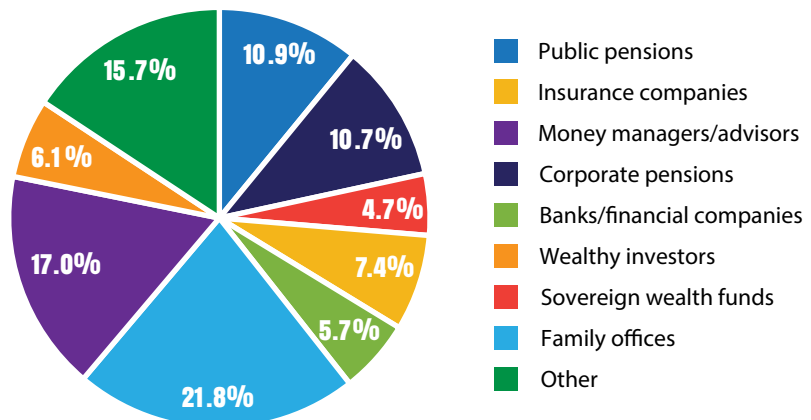
What percent of funds met, beat or fell short of target?



Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; firms with closed funds

Figure 21

What percentage of capital came from the following sources?



Source: Emerging Manager Survey, published by Buyouts Insider in partnership with Gen II Fund Services, LLC; firms with closed funds

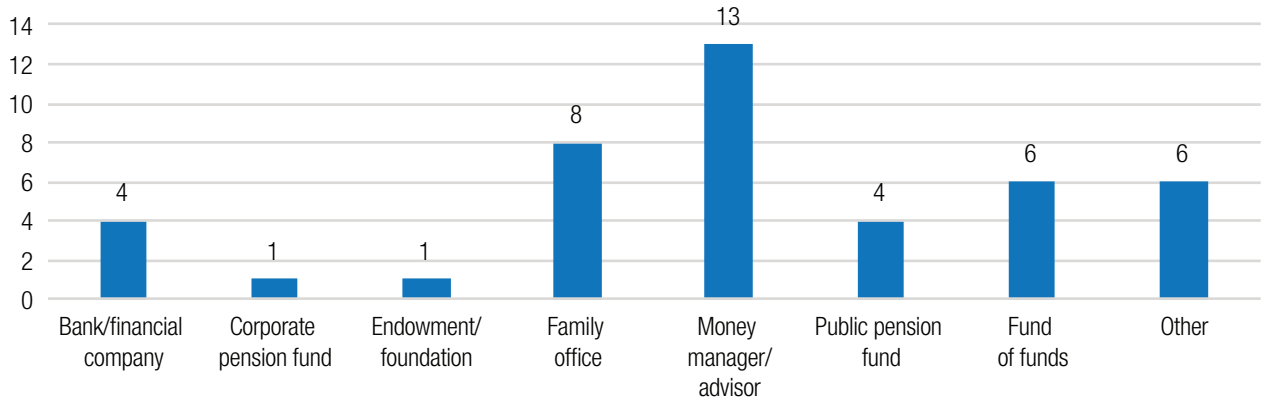
SURVEY OF INSTITUTIONAL INVESTORS WITH AN APPETITE FOR EMERGING MANAGERS

Small Investors: those that commit less than \$100M/year to PE/VC

Big Investors: those that commit \$100M/year or more to PE/VC

Figure 22

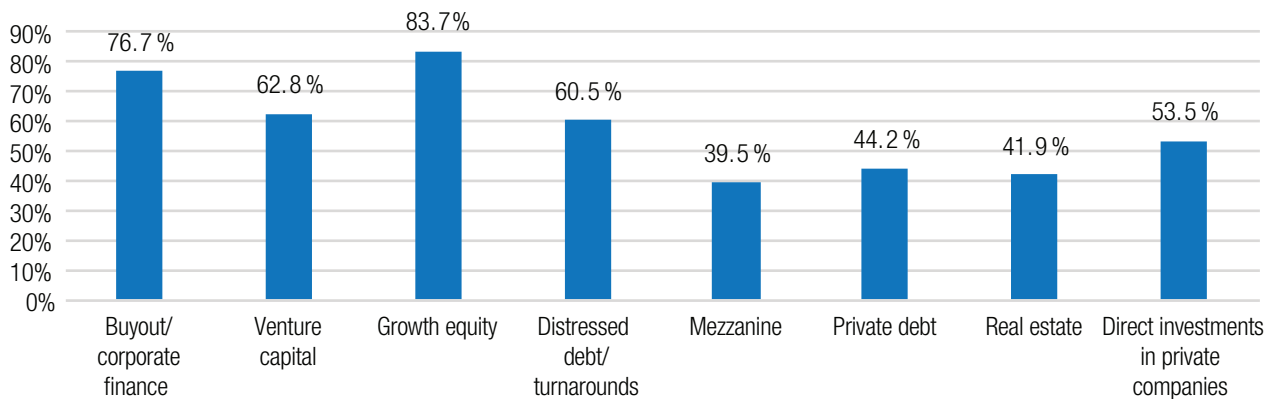
What kind of institution do you work for?



Source: Survey of emerging manager investors by Buyouts Insider in partnership with Gen II Fund Services, LLC

Figure 23

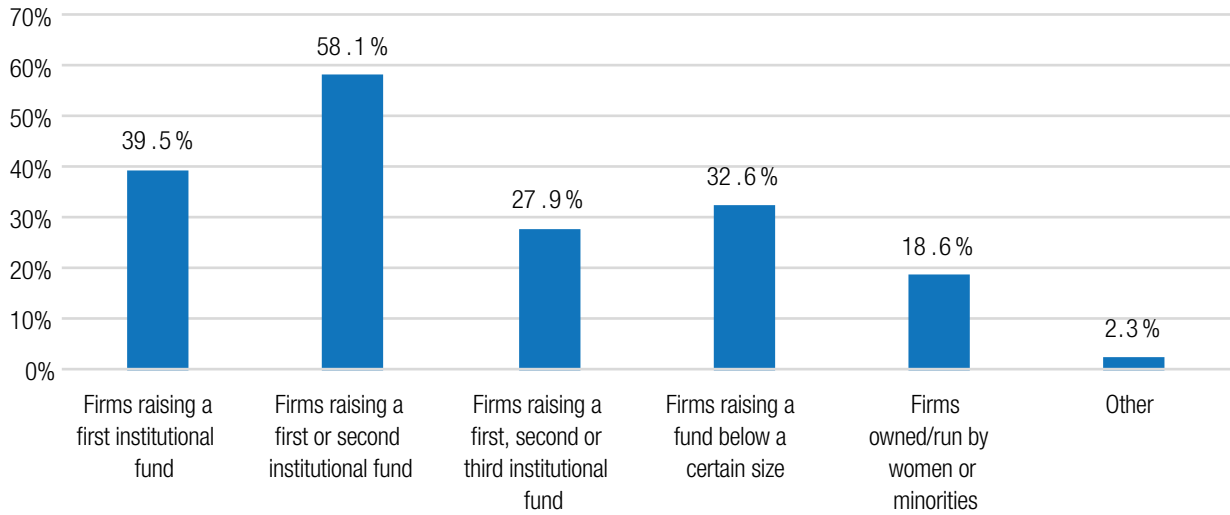
What kind of alternative investment strategies do you invest in? (respondents could pick more than one answer)



Source: Survey of emerging manager investors by Buyouts Insider in partnership with Gen II Fund Services, LLC

Figure 24

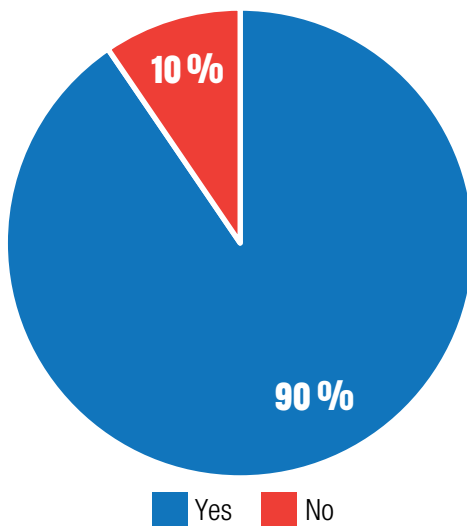
**How do you define the term “emerging manager” when it comes to PE/VC?
(respondents could pick more than one answer)**



Source: Survey of emerging manager investors by Buyouts Insider in partnership with Gen II Fund Services, LLC

Figure 25

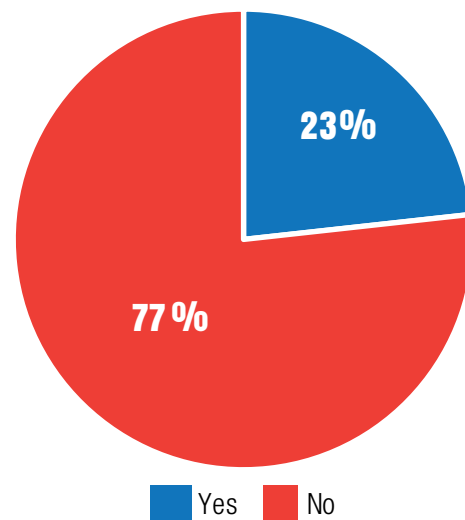
Will you back a debut PE/VC fund?



Source: Survey of emerging manager investors by Buyouts Insider in partnership with Gen II Fund Services, LLC

Figure 26

Do you have a formal allocation to PE/VC emerging managers?



Source: Survey of emerging manager investors by Buyouts Insider in partnership with Gen II Fund Services, LLC

Figure 27

How much capital do you commit to PE/VC funds per year on average? (\$mln)*

	Average	Bottom Quartile	Median	Upper Quartile
All	198	30	100	200
Small	83	11	38	119
Large	324	79	123	363

*Used midpoint if range given

Source: Survey of emerging manager investors by Buyouts Insider in partnership with Gen II Fund Services, LLC

Figure 28

What are your organization's total assets under management? (\$mln)

	Average	Bottom Quartile	Median	Upper Quartile
All	21,694	750	3,500	10,000
Small	11,325	2,000	3,350	7,650
Large	27,157	1,125	4,000	10,500

Source: Survey of emerging manager investors by Buyouts Insider in partnership with Gen II Fund Services, LLC; in cases where averages exceed upper quartile, large numbers toward the end of the range raised the averages

Figure 29

What is the value of your overall PE/VC portfolio? (\$mln)

	Average	Bottom Quartile	Median	Upper Quartile
All	3,087	225	827	3,250
Small	1,045	238	388	945
Large	3,479	353	1,650	3,375

Source: Survey of emerging manager investors by Buyouts Insider in partnership with Gen II Fund Services, LLC; in cases where averages exceed upper quartile, large numbers toward the end of the range raised the averages

Figure 30

How many emerging managers do you meet with per year?

	Average	Bottom Quartile	Median	Upper Quartile
All	39	10	25	50
Small	27	10	15	40
Large	47	19	35	50

Source: Survey of emerging manager investors by Buyouts Insider in partnership with Gen II Fund Services, LLC

Figure 31

How many emerging manager funds do you back per year?

	Average	Bottom Quartile	Median	Upper Quartile
All	3	1	2	3
Small	2	1	1	3
Large	4	2	3	5

Source: Survey of emerging manager investors by Buyouts Insider in partnership with Gen II Fund Services, LLC

Figure 32

What's a typical commitment size you'll make to an emerging manager fund? (\$mIn)*

	Average	Bottom Quartile	Median	Upper Quartile
All	14	5	10	18
Small	8	1	5	10
Large	16	10	15	20

*Used midpoint if range given
 Source: Survey of emerging manager investors by Buyouts Insider in partnership with Gen II Fund Services, LLC

Figure 33

How many months does it typically take from first introduction to signed commitment?

	Average	Bottom Quartile	Median	Upper Quartile
All	10	6	7	12
Small	9	6	7	12
Large	10	6	6	9

Source: Survey of emerging manager investors by Buyouts Insider in partnership with Gen II Fund Services, LLC

Figure 34

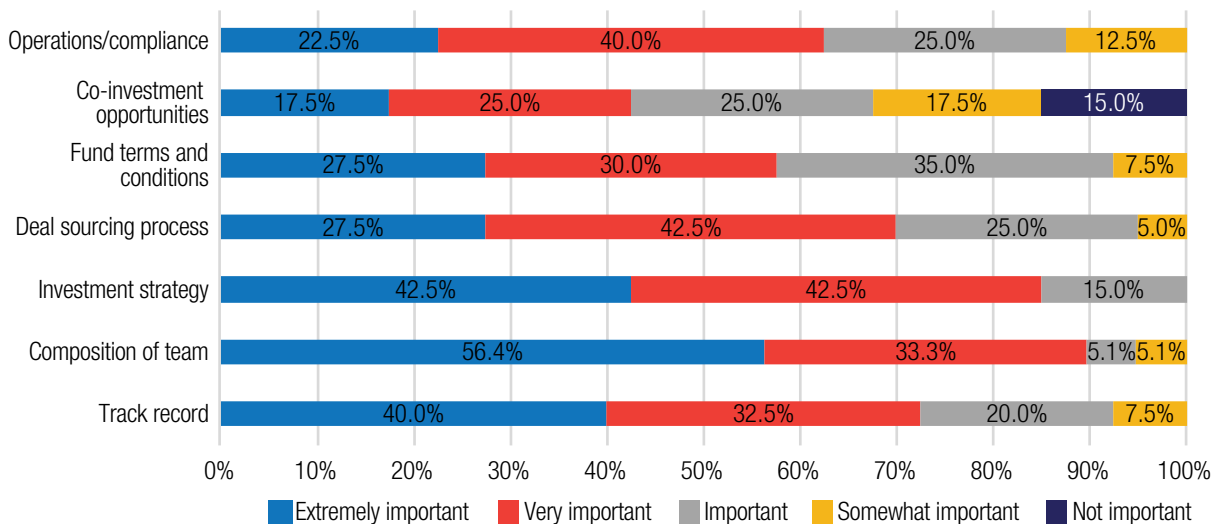
How many meetings would you expect to have with an emerging manager before making a commitment?

	Average	Bottom Quartile	Median	Upper Quartile
All	5	4	5	6
Small	6	4	5	8
Large	5	4	4	5

Source: Survey of emerging manager investors by Buyouts Insider in partnership with Gen II Fund Services, LLC

Figure 35

How important are the following factors when evaluating an emerging manager fund?



Source: Survey of emerging manager investors by Buyouts Insider in partnership with Gen II Fund Services, LLC

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