PRIVATE EQUITY FUNDRAISING IS FINALLY ON THE UP. BUT THERE'S STILL A HUGE GAP BETWEEN FUNDS THAT ARE CLOSING FAST AND THOSE THAT ARE ON THE MARKET FOR YEARS.

PRIVATE EQUITY ACTIVITY WAS QUICK TO REBOUND IN THE MIDDLE OF 2009 AFTER IT HIT BOTTOM FOLLOWING THE FINANCIAL CRISIS AND ECONOMIC RECESSION, BUT IT HAS STAGNATED AT ITS CURRENT LEVEL FOR THE PAST EIGHT QUARTERS. THERE WERE A NUMBER OF BRIGHT SPOTS IN ACTIVITY DURING THE FIRST HALF OF 2011, INCLUDING THE CONTINUED ACTIVITY AROUND MIDDLE-MARKET COMPANIES, WHICH HAS ACCOUNTED FOR ABOUT 90% OF DEAL FLOW SO FAR IN 2011. ALSO SHOWING SIGNS OF STRENGTH WERE PRIVATE EQUITY EXITS, WHICH, WHILE STILL BELOW WHAT THEY PROBABLY SHOULD BE IN TERMS OF COUNT, SAW RECORD HIGH MEDIAN SALE AMOUNTS AND SET A RECORD FOR THE BEST SIX-MONTH PERIOD WITH $69 BILLION IN TOTAL OF SALES FOR 1H 2011, ACCORDING TO PITCHBOOK.

LOOK BEYOND THE HEADLINE TRENDS, HOWEVER, AND SOME INTERESTING DIVISIONS EMERGE. WHILE OVERALL FUNDS RAISED ARE UP, MUCH OF THAT INVESTMENT IS LINKED TO INTERIM CLOSURES. AND EVEN THOUGH THE AVERAGE TIME TO CLOSE HAS DROPPED FROM 20 MONTHS AT THE END OF 2010 TO 16 MONTHS AMONGST THE FUNDS CLOSED THROUGHOUT Q2 2011, THERE ARE SOME FUNDS OUT THERE THAT ARE ABLE TO SHUT THEIR DOORS AFTER JUST SIX WEEKS.

THE QUESTION IS, WHAT ARE THESE EQUITY HOUSES DOING DIFFERENTLY TO ACHIEVE SUCH RAPID RESULTS?

I BELIEVE THE ANSWER LIES WITH AN OLD INVESTMENT TRUISM: THE ONLY THING THAT REALLY TRANSLATES INTO FASTER FUNDRAISING IS BETTER PERFORMANCE.

PRIVATE EQUITY ACTIVITY CONTINUED TO REMAIN RELATIVELY STEADY DURING THE SECOND QUARTER OF 2011 AT POST-FINANCIAL CRISIS LEVELS ACROSS DEAL FLOW, EXIT ACTIVITY AND FUNDRAISING – SUGGESTING THAT INVESTORS ARE RETURNING IN SIGNIFICANT NUMBERS.

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requests for more information.

- Develop and maintain ongoing communications with potential investors.

That’s why more innovative fund managers have already chosen to cut the paper trail, with its associated costs and inflexibility. Instead, those at the forefront of fundraising are moving to online platforms to get a detailed amount of data to the right people much more quickly.

One best practice is to manage the fundraising communication process via a virtual data room—a secure document management platform designed specifically to manage and accelerate all aspects of fundraising communications. Critically, a tool like a VDR also enables fund managers to increase the quality of their information. For example, I’ve seen some equity houses add video content, such as interviews with sector specialists to explain their strategy. Others take advantage of the speed at which information can be distributed to provide regular updates on market movements or prior investment performance.

Prospect to investor - faster

It’s no secret that the economic turmoil that has taken place over the past few years is causing many investors to rethink their reliance on mega-funds as a primary source of income. Many investors are now actively looking for ways to diversify their investments—and their risk—by investing in a series of smaller funds as opposed to a single large fund. This shift represents a great window of opportunity for those middle-market PE firms that are poised and ready to present their fund.

To capitalize on this opportunity, today’s PE firms need a flexible communication platform that allows them to quickly and easily reach out to a broader audience of investors, and also makes it extremely convenient for the investors to dig deeply into fund information before investing. A virtual data room solution, hosted by an experienced third-party provider, can provide exactly the tools needed to accomplish these goals.

Moreover, done properly, an online ‘pitch book’ can also allow more proactive management of prospective investors. When you physically post a book to the other side of the world, it’s hard to be entirely sure if it has reached the right person. And even if you know that the right person has it, you don’t know whether they’ve actually looked at the information inside.

VDRs, however, let you track exactly which pages each potential investor has looked at—meaning you can gauge their level of interest and understand their priorities. That means fund managers can then reach out directly to those prospects, in a highly targeted way, and even prepare for the questions they may ask—providing a level of reassurance and insight that can convert prospects to investors at a greater speed.

About Merrill DataSite

Merrill DataSite® is a secure virtual data room (VDR) solution optimizing the due diligence process by providing an efficient and secure method for sharing key business information between multiple parties. Merrill DataSite provides unlimited access for users worldwide, as well as real-time activity reports, site-wide search at the document level, enhanced communications through the Q&A feature and superior project management service—all of which reduce transaction time and expense. Merrill DataSite’s multilingual support staff is available around the world, 24/7, and can have your VDR up and running with thousands of pages loaded within 24 hours or less. Merrill DataSite has empowered nearly 2 million unique visitors to perform electronic due diligence on thousands of transactions totalling trillions of dollars in asset value. Merrill DataSite is ISO 27001-certified.

For more information, please contact info@datasite.com or call us at 1-888-867-0309 to schedule a demo.

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