

Fund Execs Provide Guidance on Transitioning from an Emerging to an Established Fund Manager

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Transitioning from an emerging to an established fund manager can be a challenging yet rewarding journey. As your first fund gains traction and success, it's crucial to plan in advance of launching your second fund to ensure a smooth and successful transition. Below, we explore five key takeaways based on insights from experienced fund

managers and advisors from a recent IMN panel discussion.

Anchin was a proud sponsor for IMN's 23rd Annual U.S. Real Estate Opportunity & Private Fund Investment Forum this past summer. Key members of Anchin's Real Estate team led a panel on "Transitioning from an Emerging to an Established Fund Manager." The panel featured Zurab Moshashvili (Partner, Anchin), Michael Dombai (Managing Director, North America, Alter Domus), Miles Borden (Partner, Seyfarth), Russ Krivor (President, Sovereign Properties), and Nate Reichard (Partner, RUME USA). This accomplished panel discussed the many considerations required of fund managers when launching their second fund.

Planning for the Second Fund Starts Early

Thinking about your second fund should begin well before you fully deploy your first fund's capital. The process of raising capital and transitioning to a larger, more institutional fund can take time, so it's important to start early. Raising capital for your second fund before fully deploying the capital from the first fund will enable you to have a continuous stream of capital and allow you to seize opportunities more promptly once your first fund's capital is fully deployed.

Develop a Unique Value Proposition

To differentiate yourself from other fund managers and attract larger anchor investors, you should establish a unique value proposition along with a proven track record of deploying capital successfully. You may also have to develop a strong capital relationship, such as an institution or a family office structure, if you do not have one already. Proactivity is key for a value proposition. It is important to develop a long-term investment thesis that anticipates the current market trends and deploy your capital before the peak valuations, as this will demonstrate your strategic vision and set you apart from your competitors.

Build Strong Accounting and Reporting Infrastructure

When you transition from an emerging to an established fund manager, a strong

accounting and reporting infrastructure is essential. Implementing an investment fund's reporting standards and implementing regular audits will instill confidence in investors. This transparency and financial stability create a solid foundation for the second fund's success. Additionally, retaining skilled employees and addressing any infrastructure weaknesses is essential to maintaining a successful strategy.

Engaging Investors for Fund II

When raising capital for the second fund, larger, institutional or anchor investors may want the opportunity to participate in the second fund by asking for a stake in the General Partner (GP). This approach leverages their trust in your expertise and acts as a promoter, attracting new investors. It is important to evaluate the tax consequences of such arrangements carefully. When bringing in anchor investors or institutional investors, they may also want oversight and committee seats, particularly as they will have a significant investment in your second fund.

Understanding International Capital

As you grow and attract foreign investors, understanding how to bring foreign capital into the fund is crucial. Some high-net-worth families prefer separately managed accounts for more control and personalized service. Thus, flexibility and adaptability to meet diverse investor preferences are vital for sustainable growth.

Conclusion

Transitioning from an emerging to an established fund manager involves strategic planning, clear differentiation, reliable infrastructure, and thoughtful engagement with investors. By starting early, developing a compelling value proposition, and maintaining transparent reporting, you can navigate the challenges and emerge as a successful fund manager in the institutional world. Remember to be adaptable, embrace change, and prioritize investor needs to ensure a successful journey toward your second fund and beyond.

For more information on transitioning from an emerging to an established fund manager, please contact [Zurab Moshashvili](#), or your Anchin Relationship Partner.