LP Readiness & Landscape

TL;DR

The world of Limited Partners (LPs) and other investors backing fund managers can be ambiguous and difficult to navigate, especially for first-time fund managers and innovative fund models. Below is a breakdown to help capital providers understand how to prepare for engaging with LPs.

What are the different types of investors?

What is an LP?

LP stands for a Limited Partner that invests in a fund. Limited Partners have no control over the management of the fund, and their liability is limited to their specific personal investment.

What is an institutional LP?

Essentially, any type of large LP with $100M+ in AUM beyond High Net Worth Individuals (HNWIs) and family offices. This includes foundations, endowments, pensions, corporates, and banks.

What is an accredited investor?

An accredited investor is a person or entity that is allowed to invest in alternative assets like hedge funds, private equity funds, venture capital funds, etc. Nonaccredited investors are not allowed to invest in these funds.

The SEC defines an accredited investor as someone who meets one of following three requirements:

1. **Income:** annual income of at least $200K, or $300K if combined with a spouse's income, for the past two years. This level of income should be sustained for the next two years.

2. **Knowledgeable Employee:** "knowledgeable employee" of certain investment funds or holds a valid Series 7, 65 or 82 license.

3. **Net Worth:** net worth of $1M or more, either individually or together with a spouse, but excluding the value of their primary residence.

What types of LPs are out there?

- High Net Worth Individuals (HNWIs)
- Family Offices
- Foundations
- Endowments
- Pensions
- Corporates
- Banks
- Fund of Funds (FoF)
- Investment Firms (e.g., VC and PE)

How do I access LPs?

The LP world can be challenging to navigate and hard to access for first-time fund managers. The first step for a fundraising strategy is to understand the different LP types and LP landscape to figure out "product (fund)—market (LPs) fit." There is no standardized or perfect solution to accessing LPs, but first-time fund managers can reduce wasted time by prioritizing meetings with LPs that have actually made investments in pilot or emerging funds.

HNWIs typically outsource their investment portfolios and wealth management to private wealth groups—such as Goldman Sachs, Morgan Stanley, and UBS—and registered investment advisors (RIAs). These private wealth groups have approved investment product lists by asset class, including their bank's own investment products. Fund managers need to get on those "lists" that wealth advisors use to make recommendations or invest on behalf of their HNWI clients. Large banks have their own asset management and private investment research teams that lead the fund diligence and approve which funds or products go on these lists. Emerging fund managers need to make sure they get in front of the right research group focused on their asset class.

Family Offices often outsource their investment portfolios and/or wealth management to either private wealth groups or investment consultants such as Cambridge Associates, Hewitt EnnisKnupp, Mercer, Russell Investments, and Towers Watson. Some Family Offices have an in-house investment team, and when that is the case, it can be a good opportunity for emerging fund managers to connect.

Foundations typically outsource their investment portfolios to investment consultants. Larger foundations may have in-house investment staff to lead diligence on funds.

Endowments typically outsource their investment portfolios to investment consultants. Larger endowments may have in-house investment staff to lead diligence on funds.

Pensions typically outsource their investment portfolios to investment consultants.

Corporates typically do not outsource their investment portfolios and will build in-house teams to lead fund manager programs.

Banks typically do not outsource their investment portfolios and will build in-house teams to lead fund manager programs.

FoFs manage their own investment portfolios but need to raise capital from their own LPs.

Investment Firms (e.g, VC and PE) opportunistically will make fund investments in emerging fund managers as a source of deal flow and/or angel investment from one of the partners.

Where to start: who's actually investing in innovative fund models and/or first-time fund managers?

1. **HNWIs,** including angel investors, former entrepreneurs, and GPs at established VC and PE firms
2. **Family offices**
3. **Banks** leveraging their balance sheets and/or CRA programs
4. **Corporations,** including Fortune 1000 technology and insurance companies
5. **Foundations** leveraging their grantmaking program and endowment to make Program Related Investments (PRIs) and Mission Related Investments (MRIs), respectively
6. **Fund of Funds**
7. **VCs** interested in backing earlier-stage "scout funds" primarily as a deal flow source

LP Landscape

LP data has always been mysterious and hard to track down because the majority of institutional and accredited investors do not disclose their names. However, more LPs are starting to disclose their commitments to emerging fund managers and have provided some insight into the LP landscape.

Here is a list of some of the most active LPs for first-time fund managers in the US (in no particular order):

Banks: Bank of America, Goldman Sachs, Truist

Corporations: PayPal, Carta, MassMutual, Consumer Technology Association, Alphabet / CapitalG, Foot Locker

Family Offices: Pivotal Ventures, Spring Point Partners

Foundations: Living Cities, Ford Foundation, Surdna Foundation

FoFs: First Close Partners, Screendoor Partners, Bain Capital Ventures, Plexo Capital, Equity Alliance, Capricorn Investment Group, Cendana Capital, Foundry Group, Next Play Capital

VCs: Motley Fool Ventures, Insight Partners, Alpaca VC

LP Call to Action:

Corporations filling part of the major capital gap for emerging fund managers is a start, but they typically do not have an intentional, long-term strategy. Institutional LPs with large AUMs and patient investment capital, especially foundations and endowments, should leverage part of their annual grant budgets to permanently seed the next generation of fund managers through PRI and MRI programs.

Resources

Articles & Research

OpenLP
Signature Block
Silicon Valley Bank

Fund Manager Programs

Boston Impact Initiative
Confluence Philanthropy
Catalyze
Coolwater Capital (previously Oper8r)
Left Tackle Capital
NAIC
Plexo Capital GPx
Purpose Foundation
Recast Capital
Sutton Capital
VC Include
VC Lab

For more tools and resources, visit innovative.finance/resources.