



Looking for Institutional Capital?

Must Ask Questions

You have a meeting/call with a potential capital provider/investor and you want to tell them everything about your company as fast as possible in order to get an investment...

...*WAIT*...

What do you know about your potential capital provider/investor?

Knowing some basic background about your potential capital provider/investor will enable you to much better frame your investment opportunity in terms that will make your investment most relevant thereby increasing success rates.

In addition, knowing more about the potential capital provider/investor will help determine if the investor is a good fit with your goals/plans.

Institutional capital providers/investors are usually driven by their own investment guidelines and processes thereby making it essential to understand where you fit within their structure. In order for them to make an investment, they have to satisfy the demands of their internal structures and frameworks regardless of how much they might like your investment proposal.

Some items that are important to understand are:

Capital Provider/ Investor Type:	Investment decisions are often based upon other organizational aspects. For example, a pension fund which has to be concerned about long term liabilities will make different investment decisions than a daily liquidity fund.
Asset Allocation:	Investment decisions are usually based upon an asset allocation framework - whether this is broad (ie: asset classes, funds) or narrow (sectors, direct investments) an investment must fit within and prove additive to this framework before an investment will be made.
Capital Source & Liquidity:	The capital source and liquidity of the source will affect a final investment decision. For example, if the capital source is not readily available (ie discretionary vs nondiscretionary capital) and/or the source is not liquid (ie: a PE portfolio that has not had realizations), investments may not be able to be made despite interest.
Risk/Adjusted Return:	Most investments are made using a risk adjusted return analysis and there are different return expectations for different risks. It is important to understand “market” (ie: the capital provider/investor) risk adjusted return expectations and how your investment compares.
Success Metrics	Relative success measurements (ie: index based) will provide significantly different investment decisions than absolute return measurements (ie: total return, exits).
Value Add	Understanding what the investor brings to the table other than capital that could be valuable to your company as you grow and expand.
Decision Making Process/Time Frame:	Understanding the decision-making process will help determine the different constituents that need to be satisfied before an investment will be made. An institution that enables one portfolio manager to make investment decisions will likely make much different investment decisions than one which has an investment committee which includes risk management person.



APPENDIX I
Key Questions

Capital Provider/ Investor Type:	Q: Are there any key considerations about your investment decision making process that would be important for me to understand?
Asset Allocation:	Q: What made you interested in learning more about my investment? Q: Where does my investment fit within your investment framework? Q: Do you have similar investments already? Q: Do you have a maximum or minimum investment size?
Capital Source & Liquidity:	Q: How much capital do you have / in this strategy? Q: From where would the capital for this investment come? Q: Is the capital readily available or when would it be available?
Risk/Adjusted Return:	Q: Do you have a return target for an investment of my type? Q: How do you measure risk for an investment of my type? Q: What attributes do you look for when looking at risk reduction (control, min/max equity %, hedging, covenants, etc)? Q: How much track record (operating company or management team) do you like to see?
Success Metrics	Q: How would your success in my investment be measured (ie: absolute return/benchmark/diversification)? Q: How would you measure a successful investment (return targets/maturity/exits)?
Value Add	Q: How do you work with the companies in which you invest? Q: Are there areas where you or your firm add unique value in addition to providing capital?
Decision Making Process/Time Frame:	Q: Is your capital discretionary or non-discretionary? Q: What is approval process? Q: Who is involved? Q: How long does process usually take?

