

Fundraising headwinds prompt managers to adapt for success

1. Most managers agree that fundraising conditions should improve in 2024
 2. AI and data are two trends occupying the mind of most managers
 3. There's a growing focus on regulation, with the U.S. catching up with Europe from a regulatory perspective
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The headwinds that have made fundraising so tough in recent times are driving those in search of investors' capital to adapt for success. Following two pieces of research and an expert panel session exploring fundraising trends, [Ore Adegbotolu](#) and Lynne Westbrook reveal their six key fundraising themes as we head into 2024.

Two surveys, the [Private Funds CFO Insights 2024](#) - for which Aztec Group is a partner - and Passthrough's 2024 Fundraising Predictions Survey, have returned similar results when it comes to how C-suite executives perceive the Alternative Investment sector and their macroeconomic view on it for 2024.

First, spoiler alert: the vast majority of respondents in both surveys expect fundraising to improve.

Both sets of research found that, when it comes to the fundraising landscape and what drives success, the same trends are on respondents' watch lists. This

encompasses an increase in fund sizes and fundraising duration, along with the evolving influence of technology – primarily data and artificial intelligence (AI) – on investment processes and providing more detailed information to limited partners (LPs). Regulation also features highly, with respondents acknowledging they have their eye on incoming changes, as well as the ongoing quest for robust and standardized ESG reporting.

1. Fundraising is taking longer, but upcoming funds are expected to be larger

[The Private Funds CFO Insights 2024](#) report has revealed that, despite current challenging market conditions, 8 out of 10 survey participants are either already fundraising in-market or expect to be in-market to fundraise within the next year. More than 70% are also expecting their firm's next fund to outsize the most recent vintage, with only 8% expecting the next fund to be smaller. This perspective is further supported by the findings of the 2024 Fundraising Predictions Survey, which found that two-thirds of respondents are increasing their target AUM, with half saying that their timelines were longer. PitchBook also reported recently that the average time to close a fund in-market is at its highest level since 2012, with the average time to close now more than 15 months.

It might seem counter-intuitive that although it is taking longer to fundraise, many managers expect to be increasing their forthcoming fund size.

There are a number of factors that will likely drive this trend. One is that the [retailization](#) of private markets is starting to lead to a growing influx of a new category of investor, which is reshaping how GPs are looking to raise funds, particularly for larger GPs who are working to create vehicles that reduce the barriers to entry for retail investors. Funds are also increasing in size as investors are expanding their allocation to private markets, with large pension funds, for example, looking to deploy more capital into the sector.

In terms of the length of time taken to fundraise, GPs have cited the increased level of rigour in the negotiation and due diligence process. LPs have been asking more questions of GPs and therefore, the due diligence process is taking longer.

2. Perpetual fundraising mode

Another feature of the evolving fundraising environment is the elongation of the fundraising cycle, which is compelling managers to find more creative ways to bring in investors and investment. So, what might traditionally have taken two closes in a less challenging macroeconomic climate might now take up to five or six closes. What this means is that managers are effectively operating in a perpetual fundraising setting. This adaptation means a manager must consider how the infrastructure will support this, in particular how technology can be deployed effectively to access more diverse and larger groups of investors. Along with the [retailization](#) of private markets, there are increasingly exciting possibilities offered by [digital assets](#), which are becoming more accessible and available as the private markets space continues to grow.

Overall, there is an anticipation of a resurgence in the global equity capital markets, with mergers and acquisitions trending towards a return to the levels seen in the five years pre-COVID. A key driver of this will likely be an absorption of some of the excess dry powder which has accrued in the market, being deployed.

3. Tooling up with tech

Advancements in technology are already transforming how a manager executes activities through a fund's lifecycle. Both the Private Funds CFO report and the Passthrough Fund Prediction Survey illuminate this with almost a quarter of CFOs surveyed expecting AI to deliver efficiencies to their businesses – notably in onboarding activities including AML and KYC checks – while almost 6 out of 10 CFOs expect automation to enable more effective portfolio management capabilities.

Also, supplementary technologies are now forming part of how investments are being opened up to broader pools of investors, and all CFOs surveyed indicated that they are actively monitoring how technology can deliver improved returns.

With the speed at which AI and [tech tools](#) are developing, businesses will have to decide whether to make large investments in enhancing their technology infrastructure or to outsource them to a third party who has already invested in these areas. Among those surveyed as part of the Private Funds CFO report, 8 out of 10 of those who already outsource said outsourcing delivered opportunities for improvement in technology, service and access to expertise.

For some fund managers, co-sourcing might be an appropriate solution as it allows the firm to leverage the technology they already have in-house, while handing off the back-office functions to a third party partner with the relevant expertise.

4. Regulation is strengthening

There is no doubt that U.S. regulators are tightening regulations applicable to private funds in a bid to protect its growing pool of investors. This is a trend which has parallels to what we have observed in Europe over the last decade, where AIFMD has played a significant role in the European private markets. Four out of 10 participants to the Predictions Survey said they intend to grow their retail investors, therefore compliance with this increasingly complex and robust regulation will be an ongoing challenge for private fund managers to navigate.

The [SEC's PFA](#) ruling brings the U.S. regulatory environment closer to what exists in Europe and, despite the current court challenges to some of the proposed legislation, the direction of travel is towards more transparency and protection for investors. This coupled with [The Corporate Transparency Act](#) that came into force on January 1, raises the question for managers of how to get and stay compliant: is this best done in-house, or through outsourcing these related functions?

5. Next generation data

When it comes to data – joining the dots to deliver more meaningful analysis is top of the agenda across the board, not only in this research but anecdotally among our clients. Data requirements are changing – fast. There is a greater emphasis on collecting ESG data and increasingly the LP community demands more detailed and nuanced information from GPs. However, it need not necessarily be about new data points to collect, but rather about being more consistent in validating the data points that are already being collected.

Listen [here](#) for more about decoding LP data requirements in this episode of [The Alternative Insights Podcast](#).

The first challenge for all managers is accessing data with as little friction as possible and then sorting it in increasingly smart ways, using the most up to date technology tools. The next level challenges we are focussing on with our clients is

to overlay analytics and enable more nimble decision-making. To do this effectively, integrating the best-in-class technology, is paramount.

6. ESG reporting

Currently there are clear distinctions between European and U.S. investors when it comes to ESG data requirements. European investors are, in general, far more likely to use ESG as a gating mechanism when deciding whether to invest or not. This makes sourcing ESG data one of the biggest challenges managers face, as well as then being able to rely on that data to then report to investors on a consistent basis. This too is a trend where the direction of travel is towards more detailed and reliable ESG data before investments are made, as well as a beefing up of [regulation](#) in all jurisdictions.

If you'd like to discuss any of the topics raised in this article in further detail, please reach out to [Ore](#).



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