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Placement agents cost, but add stamina to the fund raising.

For investors it's often an assurance of value. So much so that foreign investors often engage them to search for new teams.

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Placement agent have become a rather common tool in fundraising for private equity and venture capital funds. This is true in the international practice, where placement agents are engaged not only by small-medium sized funds (up to one billion dollars) but even by managers of larger funds, which typically already have a separate team fully devoted to investor relations. In the Italian practice, placement agents are also becoming more and more common, especially for funds raising capital from foreign investors.

There are several reasons for this. Young managers that begin extending the scope of their fund raising efforts to third party investors (or to investors that are beyond their ordinary circle of business associates) usually need assistance from placement agents both in order to generate new contacts and to assist in the organization of the roadshow for new potential investors. In these instances, placement agents coordinate the preparation of investment presentations and of the Private Placement Memorandum (in particular, the sections outlining the strategy and track record of the manager), as well as of the rest of the due diligence package, *i.e.* the group of documents and other information provided to interested investors. It is crucial that managers be very well prepared already during their first contacts with potential investors, which often do not give second chances to inexperienced managers, if they perceive a lack of confidence of organizational resources on their part.

Instead, managers that are raising capital for successor funds value placement services both because they are conducive to a potential enlargement of the investors' base and because they provide a much-appreciated contribution to a smooth and well-organized fund raising process.

Investors also recognize the quality input of the best placement agents, and look at funds introduced by them with less caution, confident that many key questions and choices have already been tackled by the manager with the assistance of the placement agents.

From another perspective, good placement agents build their activity and their relationships with potential investors on the excellence of the funds they assist. Consequently, they undertake a very careful diligence process on the prospects for success of the fund raising project, before they agree to accept a mandate.

This combination of interests makes the engagement of a reputable placement agent a very important factor in the accomplishment of the manager's fund raising goals.
A placement agent's interest in the best outcome of the project is also typically reflected in its compensation arrangement with the manager. In fact, in addition to the reimbursement of out-of-pocket expenses and a low base consulting fee, most of the compensation for the services of a placement agent is based on the success of the fundraising. This is usually expressed as a percentage of the aggregate capital raised (sometimes, subject to a floor and/or a cap) and is paid in one or more instalments after the closing of the fund.

Placement fees are always borne by the manager (and never by investors), although the manager is often allowed to use the fund's capital (*i.e.*, the investors' commitments) to pay placement fees in the first place, as an advance payment of the management fee. Which is another reason why the placement agreement is subject to extremely careful negotiation on the part of the manager.

Looking at a placement agent's compensation, some agents reduce the percentage of the placement fee in exchange for a small share of the management fee. Other placement agents accept a lower remuneration, especially when assisting managers raising first funds, if they obtain the manager's pledge to engage them in connection with successor funds, and sometimes a firm obligation to pay them a placement fee on any commitments in successor funds by previous fund investors introduced by the same placement agents.

Finally, from a regulatory point of view, a placement agent must have all necessary authorizations for the marketing and sale of the interests in the fund in all countries in which prospective investors are based, and it must be familiar with the rules applicable in each such country, lest the private placement should be considered a public offer and, as such, subject to conditions and requirements that would not be compatible with the typical characters of a closed-end private equity or venture capital fund.

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