Launch 2025

Moving On and Moving Out

Welcome to Jefferies Launch 2025: The Founders' Perspective. Starting a successful alternatives fund is entirely different than it was 10 years ago. The costs are different, the challenges and potential upside are different. In this series, we leverage expert views on what potential founders need to know *now* before launch.

Today: **Moving On…and Moving Out. How to get from where you are to where you want to go.**

WHAT ARE THE *FIRST* THINGS FOUNDERS NEED TO KNOW

Nearly everyone who wants to start at alternatives fund is…already at another alternatives fund. We asked Peter Greene and Ben Kozinn from Schulte Roth and Zabel what should be top of mind.

- ✓ Contracts
- ✓ Counsel
- ✓ Calendars/Timing

Contracts

When you're thinking about leaving your current firm, it's really important that you look at your contract that you have with your existing employer. You need to understand the terms of where you are before you can identify a path forward.

It is important to have that hopefully evaluated with these contracts with counsel.

While this will be the first time many founders engage with counsel, it can be important to understand the value and terms of your current contract.

- What terms govern my moving on?
- Am I leaving anything on the table compensation-wise with a departure?
- What are the terms of my deferred or reinvested compensation? These terms can be complex and should be understood over the timeline of potential payout.
- Do I have a non-compete?
- Do I have a non-solicit?
- Do I have any other restrictive covenants that could impact my ability to get a new organization off the ground?
- What is written into my contract about my track record or performance and how does that dovetail with the new Marketing Rule?

Counsel

For many founders, this will be the first time they engage professionally with counsel (i.e. – a law firm/legal counsel). These relationships are critical in the early days of a new firm, and there are many different factors that can shape these engagements.

Legal counsel can be some of your most critical early discussions – in part because they are governed under attorney/client privilege and are resources that cannot discuss your potential future plans with anyone, which can be important as you work to understand your current employment contracts.

Founders may consider what questions to ask in an initial engagement of counsel, but it's often the questions counsel will pose to the founders that are relevant.

These include:

- ❖ Do you have a record of your current employment contracts or documents?
- ❖ Are they up to date?
- ❖ Do you have easy access to them – or do you need to ask someone, and potentially create an awkward scenario?
- ❖ Do you have access to your track record?
- ❖ Do you have a deferred compensation document that separately governs terms?
- ❖ What are you thinking of launching?
- ❖ Will you be a competitor to your current firm?
- ❖ Does your strategy rely on any models or intellectual property currently in use by your firm?
- ❖ If you are considering early hires, what are the contracts that govern *their* current employment situation?
- ❖ How many employees will you launch with?
- ❖ Who is going to run the non-investment side of the business and the processes that govern business documents, subscription agreements, etc?
- ❖ What working capital do you have to dedicate to running this business?

Calendars/Timing

Other than: how do I leave where I am, and how much will this cost me, the third biggest question facing founders is: how long will it take me to get my firm up and running?

This is largely governed by two factors:

1) Any restrictive covenants of your current employment contract (i.e. – a non-compete) and
2) The early steps taken to build an institutional firm from its first days

Many of the earliest decisions you make – both while still at your employer and starting the day after you give notice – will impact your success as a firm, and your ability to raise money from third party investors in your nascent stages.

In the mid-2020s, founders can estimate needing about two years of working capital to get their funds off the ground. Initial costs go into things like employee compensation and sign on bonuses, rent, furniture, systems and technology.

It may be possible to launch a firm in less time, but overall, 24 months from the very first glimmer in a new founder's eye to Day 1 official launch is an approximate average of timing to get an alternative fund of the ground.

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TRACK RECORDS
A CRITICAL COMPONENT BACK IN VIEW

In addition to contracts, counsel and calendars – and especially in the wake of the Marketing Rule that passed in 2022 – ownership and use of one's perceived track record or performance are back in view.

While many PMs assume they understand and "own" their track record or performance, what this means in practice varies widely. Potential founders need to understand:

i) **What information is *mine*, and what data can I share?** Reports PMs may have had access to in their prior firms may not be available at all, or in any form resembling what they are used to viewing.
ii) **What does the new Marketing Rule say about reporting prior performance?** This regulation, which went into effect in 2022, indicates what, how and in what scenarios may previous performance be shared with new potential investors.
iii) **Does your relationship with your prior firm matter?** With track records being among the most coveted assets to take to a new launch, how you leave your prior shop can make a big difference.

OTHER CONSIDERATIONS

There are certain other considerations that need to be top of mind for founders that don't fit neatly into any of these categories. We will address some of these in depth in subsequent pieces – but founders should also be considering:

- ✓ In a very crowded environment, how are you going to differentiate?
- ✓ What is your value proposition in a mid-single digit rate world? Things are very different than when rates were at rock bottom globally.
- ✓ Where will the funds come from to capitalize the management company?
- ✓ Are you building an *institutional* firm? The regulatory environment is as demanding and complex as its been in years, are you prepared to navigate that landscape?
- ✓ If the SEC examines your firm in the first year, are you ready?
- ✓ It can take longer to raise capital than in years past – are you prepared for a longer "sale cycle" to get those early investors?
- ✓ Are you considering funds of one, SMAs or other non-comingled structures?

There are – quite literally – dozens of decisions founders need to make before they even give notice to quit their current firm. It is our hope that these pieces can help start to build a roadmap of success, by identifying some of the right questions that have to be addressed early on.

Founders have one chance to leave your current firm the 'right' way – are you ensuring you're doing that?

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