

**Stable Playbook**

**Stable**

# Stable builds a future of shared success between Asset Owners and Founders.

The Stable Group (“Stable”) is an investment firm with offices in New York and London dedicated to helping ambitious Founders build investment firms. Stable invests across alternatives strategies in public, private credit, private equity, real asset, and venture markets.

We back Founders who understand that delivering extraordinary performance requires building a great organization. We serve Asset Owners who realize that building the exceptional lies beyond the boundaries of conventional limited partnerships. Asset Owners that entrust Stable with their capital include public pensions, sovereign wealth funds, endowments, foundations, and successful Founders.

Our partnerships with investment firm Founders follow these principles:

1. **Capital:** Commit substantial early capital that is long term and flexible
2. **Alignment:** Align incentives to help drive returns and growth at every step of the lifecycle
3. **Operations:** Provide hands-on support to the business functions that distract from investing
4. **Experience:** Mitigate risks by knowing what challenges to expect
5. **Business Building:** Help build and fuel the engine for firm growth

We invest from a number of different capital pools:

- A. **Stable Seed Funds:** Commingled strategic partnerships
- B. **Tailored Mandates:** Custom programs for individual Asset Owners
- C. **Cavalry:** Special situations and co-invests

We believe the Asset Owner-Founder relationship of the future is quite different from the dynamics that dominate our industry today. In a traditional relationship, the incentives of Asset Owners and Founders can diverge over time as firms grow. To mitigate this risk, at Stable we are minority owners in the investment firms we back. We share in both the income and the enterprise value that builds over time as the firms perform and grow. The beauty of true partnership is that our incentives remain aligned as the firms mature. Over the years we have found that better aligned relationships lead to much healthier, more enjoyable, and more productive partnerships.

We invest across asset classes, ranging in size from \$25 to \$300M. We are always seeking to back Founders who will become the legends of tomorrow. If you think this might be you, submit your pitch on our website.

# A Practitioner's Playbook

## Building the legends of tomorrow.

The process of building an investment firm has changed significantly since Stable was founded nearly two decades ago. During this time the expectations of Asset Owners have evolved significantly. No longer are Asset Owners only looking for returns in line with an agreed mandate. They now seek out partnerships that also provide long-term economic alignment, the ability to learn through knowledge transfer, the opportunity to grow the relationship by investing in special opportunities that present themselves within the domain expertise of the firm, and the implementation of best-in-class operational and investor relations practices. All of this creates a higher bar for investment firms than existed previously.

We help Founders overcome this challenge by leveraging our resources, experience, and scale. We have a distinctive advantage in knowing what best practices look like, enabling us to future-proof partnerships as much as possible. Decisions you make on Day 1 can come back to haunt you years later. Because we have already seen the full lifecycle of many investment firms, we know what challenges to expect and how we can help mitigate them from the start. We have learnt to identify what elements often lead to successful partnerships and, just as importantly, which are overrepresented in unsuccessful ones.

Our guiding principles for building an investment firm have been summarized in this Playbook. They are applicable to both public and private markets firms. The four sections of the Playbook are:

**STRATEGY + TEAM + OPERATIONS + FUNDRAISING**



## Strategy: Finding Your Niche

*Defining your strategy will be the most important decision you make in your new firm journey*

### Setting a vision

Your vision should be ambitious, enduring and aligned with your values. Performance is the focus of any investment firm. To drive performance, your vision should underlie all your actions, from recruitment, through investments, to risk management. Although the vision might be clear in your mind, you'd be surprised how often it is poorly communicated internally and externally.

- Design the platform around you to best harness your passion and skills
- Define the culture you want to build, and to one day leave behind
- Refine that vision into simple and clear statements of intent
- Ensure the entire organization understands your vision and know how they can contribute

### Program design

Your investment program should be underpinned by a carefully considered strategy.

Consider:

- Target risk-return profile compared to peers, the market and LP expectations
- Target sectors compared to your prior experience
- Target geography compared to your firm's footprint
- How much capital you need to make the economic model viable, and how much capital could be invested in this opportunity over time

### Mapping your process

An investment process needs to be replicable and comprehensive.

Consider:

- The investment process - origination through screening, diligence, structuring, execution, monitoring, and exit
- Identify the key committees, documents, and approvals

## Team: Hiring and Retaining the Best

*There's more to a great organization than its Founder. Building a team requires leadership and empathy*

### Leadership

- Develop and communicate a vision to your team
- Embody the work required to achieve that vision
- Shape a culture through values and integrity
- Build people through mentorship, consistency and fairness

### Developing talent

- Delegate authority with trust
- Assign proper resources to achieve objectives
- Balance compliments with clear counsel
- Set standards and regular objectives
- Keep morale high and care for your team
- Support continued learning and education
- Cultivate acts of charity

### Diversity for performance

- Diversity is the aggregation of various cultures, backgrounds, talents, skills and abilities, which we believe deliver superior team performance
- Diverse thinking can be consciously targeted but can also be trained when building a team
- Build organizations that avoid group-think
- Create a culture of accountability

## Operations: Building a Firm Foundation

*"You do not rise to the level of your goals. You fall to the level of your systems." - James Clear*

### Finance

In our experience, most firms manage firm and fund finances in three ways:

- In-house resources: CFO or COO/CFO with controllers and accountants to support
- Combination of in-house resources and external support from outsourced CFO firms
- Fully outsourced solutions from boutiques or multi-service fund administrators

In all cases, we recommend that fund auditors be appointed early to support.

While initial budgets and firm operations can be managed by Founders in the early days of a firm's life, financial support functions can quickly become time-consuming and complex once investors commit, and solving problems takes longer than developing effective solutions before they're needed.

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## Operations

New firms should ensure that they have an operations team and sufficient processes in place to manage investment execution, implement effective controls, and appropriately segregate duties and counterparties.

Fund administration offerings have become more robust over the last several years, with improved technology solutions that cut across all parts of the trade lifecycle – trade bookings, settlement, and accounting.

Fund administration services also offer full investor services, from processing capital activity to supporting all investor AML/KYC and other multijurisdictional regulatory filing requirements such as FATCA and CRS.

## Legal and Compliance

Fund counsel should be chosen with a view to their expertise within your strategy, geography, and size rather than prior relationship.

In addition to drafting firm and fund documentation, counsel will support regulatory functions and provide tax and structuring advice as required. Importantly, cost expectations should be agreed with fund counsel in advance of firm and fund formation work.

Compliance is a critical component of a new firm. Founders and their respective operational leads should leverage a compliance consultant to supplement their compliance monitoring efforts and support best practice awareness. In certain jurisdictions, utilizing a regulatory host umbrella can reduce risk and increase speed to market.

## Technology

From origination, monitoring and reporting to investor management and marketing, technology has the ability to support all firm operations.

With the rise of machine learning and AI, there is even more potential today for firm process optimization.

Consider:

- Customization of a CRM system for both the investment side and the distribution side of the firm. Each side will have slightly different goals depending on whether the strategy inhabits public or private market, for example:
  - Investment origination and decline tracking
  - Investment process and team time management
  - Investor relations and fundraise management
- Fund administration platforms to streamline firm finance and reporting
- AI-supported software to automate internal processes e.g. diligence aggregation

## Capital: Aligned Partnerships for Growth

*Alignment can make the difference between long-term success or failure of capital partnerships*

In our opinion, the best emerging managers have mastered:

### Momentum

Fundraising is all about driving forward and keeping momentum.

The biggest accelerators of momentum are:

- Large investor commitments
- New investments
- Portfolio events or material performance upticks

The biggest momentum killers are:

- Missing marketing or legal documentation at launch
- Lack of institutional operations
- Empty team boxes in presentation
- Lack of initial traction with investors
- Poor or confused messaging

### Storytelling

The best pitches are stories balancing an enduring problem with a credible solution, delivered by a leading and trustworthy team.

Take the investor on a journey by:

- Naming the enemy
- Creating urgency
- Highlighting the solution
- Showing the benefits
- Building trust
- Demonstrating the potential of the solution

A strong elevator pitch, which is presented in the first five minutes of every investor meeting, will keep messaging tight and introduce key topics from the start.

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## **Approach**

### *Trust*

Your partnership with investors will likely span multiple decades. Building a foundation of trust should be at the forefront of everything you do.

### *Anchor investors*

Accepting strategic capital can transform fundraising momentum, support operations, and raise your profile.

### *Capital introduction*

Decide early in your process – will you raise capital with an internal team or use an external introducer? Unless you have deep investor networks, a high industry profile, or an internal IR team with significant reach, use external support.

### *Phased approach*

The best fundraisers use a highly targeted approach and triangulate the best investors through prior investments, current appetite, and specific investment focus areas. Those who know you best are often the best for early meetings and calls – both for feedback and fundraising support.

### *Network effects*

The strongest introductions are referrals. Those who know you, particularly investors, will be the most influential cheerleaders. Build and strengthen relationships well in advance of asking for capital.

## **Materials**

Whether it's a conflicts policy or an investor presentation, every document should support your firm's brand and be an endorsement of your institutional quality.

While the fundraising data rooms of hedge funds and private markets may vary, the best managers will prepare a comprehensive and transparent suite of documents for investors. Solid documents ensure trust continues after meetings end.

Data room documentation is outlined on the next page.



## Public markets

- Presentation
- Due Diligence Questionnaire
- Company data sheet
- Policies
  - Compliance manual (or table of contents) and code of ethics
  - Allocation policy
  - Valuation policy
  - Co-investment & co-sponsorship policy
  - Diversity and inclusion policy
  - Expense policy
  - ESG policy
  - Risk management policies (including trade allocation, trade error, soft dollar)
  - Privacy policy
  - Cash Control Policy
- Limited Partnership Agreement
- Private Placement Memorandum
- Subscription documents
- Legal structure chart
- Form ADV brochure (if registered)
- Investment lifecycle

## Private markets

- Presentation
- Due Diligence Questionnaire
- Company data sheet
- Policies
  - Compliance manual (or table of contents) and code of ethics
  - Allocation policy
  - Valuation policy
  - Co-investment & co-sponsorship policy
  - Diversity and inclusion policy
  - Expense policy
  - ESG policy
  - Risk management policies (including trade allocation, trade errors)
  - Privacy policy
  - Cash Control Policy
- Limited Partnership Agreement
- Private Placement Memorandum
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- Form ADV brochure (if registered)
- Investment lifecycle

## Investor navigation

As investors face pressure on both time to evaluate new firms and the capital to support them, fundraising for emerging ventures has become significantly harder.

## Investment team conviction

- Is the vision of the firm meaningful and coherent?
- Does the strategy fit the investor's allocation?
- Does the strategy offer something different to other firms in portfolio?
- Does the team trust the Founder?
- Is the pitch narrative compelling?

## Commercial diligence

- How does the track record compare to market benchmarks? Peers? Other opportunities?
- Does the team have the capacity to execute the strategy?
- How will the emerging firm compete and win in its markets?

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## Operational diligence

- Are each of the firm's policies created to blue-chip standard?
- Does the firm have an institutional back office?
- Does the firm work with leading external firms?
- Does the firm have appropriate redundancy and segregation of duties?

## Legal diligence

- Are terms in line with market peers?
- Does the firm offer incentives for investors of scale?
- Is compensation aligned with investor returns?
- Has the Founder considered how issues or conflicts are remediated?

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