The hunt for infrastructure fundraisers: Hot demand, scarce talent

Infrastructure firms must know what talent to look for and where to find it.
In our article, “Bolstering talent and leadership in infrastructure asset management,” we discussed the challenges facing infrastructure investment firms in sourcing and hiring asset management professionals.1 The challenges associated with infrastructure fundraisers are even more acute.

Demand for senior fundraising professionals in North America and Continental Europe has surged over the past year and is accelerating in Asia Pacific as well. This is hardly surprising, as the infrastructure asset class is hot now and projected to keep sizzling for at least the next decade:

• Cumulative global infrastructure spending between 2016 and 2025 is expected to reach $27.3 trillion.2 As if this number isn’t huge enough, the forecast of spending needed is $31.9 trillion—a $4.6 trillion gap that must be funded somehow (Figure 1).

Further underscoring this funding gap is the fact that, at the start of 2018, the 166 infrastructure funds in the market tracked by Preqin were trying to raise a relatively minuscule $122 billion.3

• Among the major alternative investment sectors, global assets under management (AUM) are expected to nearly quintuple (470%) for infrastructure during the same period,4 versus much smaller gains for private equity (120%), real estate (80%), and hedge funds (50%) (Figure 2).

It’s fair to say that demand for infrastructure fundraisers is at an all-time high and will continue to soar as fund managers (i.e., general partners) prepare for the next round of fundraising, typically onboarding talent 12–18 months ahead of launch to plan their investment thesis and value-creation strategy.

Figure 1. A $4.6 trillion funding gap
Projected infrastructure spending, 2016–2025 ($ trillion)

Source: Oxford Economics and Global Infrastructure Hub, Global Infrastructure Outlook, July 2017

Figure 2. Infrastructure will outpace other alternatives
Projected growth in global assets under management, 2016–2025 (%)

Source: PwC, Asset & Wealth Management Revolution: Embracing Exponential Change, October 2017

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But there’s a major hurdle to overcome. The pool of experienced infrastructure fundraisers is small because the asset class, despite its expected growth, is relatively young and dwarfed by its main—and more established—competitors for capital: infrastructure accounts for just 6% of global alternative AUM, compared to 47% for private equity, 33% for hedge funds, and 12% for real estate (Figure 3).

**Winning characteristics**

While the supply/demand imbalance is the primary challenge faced by fund managers seeking top-shelf fundraising talent, it’s not the only one. Relatively few people have the ideal profile of experience and skills required to excel at the job. And general partners (GPs) will need this profile if they expect to attract investors: 80% of infrastructure fund managers believe there’s more competition for capital than there was a year ago. (For more on hard-to-find infrastructure talent, see sidebar, “Investor relations searches: Money is, indeed, an object,” on the next page.)

Based on our client engagements and extensive conversations with hiring executives, the most desirable characteristics a potential fundraiser should possess include the following:

- **Intimate knowledge of infrastructure or other illiquid asset classes.** The best infrastructure fundraising professionals understand infrastructure from the macro level all the way down to specific assets. They have a solid working knowledge of infrastructure’s projected demand, regulatory environment, asset life cycle, and return profile. Additionally, they understand how these factors intersect with the needs of institutional investors.

- **Deep relationships across geographies of interest.** Fundraisers should have long-standing relationships with limited partners (LPs) and the consultant community across regions of interest. As infrastructure funds increasingly look to extend their reach across a global client base, they want candidates who have relationships with LPs in target regions and/or those in which the fund is underrepresented.

- **Demonstrable track record.** There should be a track record of success in raising funds from key institutional client channels—pension funds, sovereign wealth funds, family offices, insurance companies, and corporations—over multiple years and through a range of economic cycles.

- **Solutions-driven, consultative approach to fundraising and client development.** Firms have high expectations for their fundraisers—including the understanding that marketing infrastructure requires a level of sophistication far beyond mere product-focused selling.

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**Figure 3.** Infrastructure dwarfed by other alternatives

Global assets under management, 2016 (%)

Total = $10 trillion

- Private equity
- Infrastructure
- Hedge funds
- Real estate
- Commodities


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• **LP-to-GP translation.** Top fundraisers should be able to translate what LPs want from their infrastructure allocations into new strategic priorities for fund managers (e.g., new-product development, new geographic and/or subsector exposure, etc.).

• **Strong cultural fit.** Cultural fit is particularly critical for fundraisers joining infrastructure firms from asset classes whose life cycle patterns differ from that of infrastructure. In our 2016 article “Infra talent—The current landscape,” we explained how it takes longer for professionals to recognize and appreciate the infrastructure life cycle pattern versus patterns for more liquid markets (e.g., hedge funds) because infrastructure’s cycle is much longer. Accordingly, hiring firms must assess early in a search process whether a fundraiser candidate from private equity or real estate, for example, can fully grasp the nuances of infrastructure and thus adapt to the asset class’s longer-term culture.

**Talent sources: Few usual suspects**

Once infrastructure fund managers know what talent to look for, where should they look for it? There are only a handful of clear options.

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**Investor relations searches:**

**Money is, indeed, an object**

Like top fundraisers, senior investor relations (IR) professionals are increasingly sought by growth-focused infrastructure firms—and are in short supply. The result is a seller’s market for which hiring firms should brace themselves.

A frequent point of contention, not surprisingly, is compensation. The best IR candidates—who usually come from private equity, real estate, or hedge funds—typically seek a bump-up of at least 20% plus assurances of future upside potential. They also can command make-whole bonuses and buyouts of equity stakes in their current firms. In our experience, infrastructure firms tend to underestimate the strength of such expectations and make offers that candidates reject as too low.

A by-product of a rejected offer is that the search takes longer to complete. We’ve seen a number of other factors that can generate this result as well, most notably the following:

• Lack of internal consensus about candidates
• Lengthy interview process
• Midyear hesitation to offer make-whole bonuses
• Concerns about deferred compensation

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**Hiring firms must assess early in a search process whether a fundraiser candidate can fully grasp the nuances of infrastructure.**

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The ideal source, obviously, is **existing infrastructure funds with dedicated fundraising specialists**. The talent in this setting typically has been developed internally and groomed for fundraising roles through professional opportunities across investing, marketing, deal making, communications, and so on.

Given infrastructure’s illiquid nature, the next best source for fundraisers is **private equity and real estate firms**. These offer a much larger pool of talent who know how to position illiquid assets in a portfolio context and can explain how infrastructure adds value to both bottom-up and top-down investment approaches.

We’ve found that infrastructure funds are increasingly looking to their fundraisers for another, less heralded skill: the ability to challenge the firm’s strategy as an in-house devil’s advocate. Fundraisers from private equity or real estate bring with them proven strategic perspectives that could be valuable to infrastructure firms seeking to develop a sustainable competitive advantage.

While experienced private equity and real estate fundraisers would have to learn the nuances of the infrastructure market, their level of adjustment would likely be modest. Those joining infrastructure firms in a leadership capacity often are invited to attend investment committee and other management meetings, enabling them to gain an early appreciation of the firm’s investment thesis and to spend time with deal teams to understand the mechanics of infrastructure investing and asset management.

**Strong institutional business-development professionals at liquid-asset firms**—notably, hedge fund managers, equity managers, and fixed-income specialists—could be successful fundraising candidates. They bring relationships at the CIO and/or CEO level, the ability to grasp the big picture, and, ideally, the consultative approach we cited earlier. Additionally, they can gain a deeper understanding of LPs’ interest in the infrastructure asset class and integrate that understanding into the fund’s value-creation strategy.

The transition period for this talent could be longer than for others, though, given their need to learn an illiquid asset class as well as infrastructure’s place in a portfolio of alternative investments. We’ve seen how some infrastructure firms have made the transition process easier by working with these hires more closely.

Finally, **placement agents** are a logical source of fundraising talent. They offer strong direct experience, product knowledge, and LP relationships. The catch: GPs often prefer talent with experience in a fund setting, ongoing interaction with LPs, and a track record of managing and resolving difficult situations.

**The price is right—if it’s high**

In the current environment—which will likely persist for some time—the strongest candidates from any source will undoubtedly command premium compensation. This may include bonuses linked to successful fundraising as well as long-term incentive plans and/or carry in the fund.

In addition, top candidates can expect to sit on their firm’s investment committee, contribute to their fund’s strategic direction, and have exposure to the entire business. Some may even get involved in asset management or serve on the boards of portfolio companies. One such distribution leader, for example, not only heads a global fund’s EMEA fundraising team but also is the fund’s media contact and sits on a portfolio asset’s board.

**Pain points and how to handle them**

There’s significant opportunity cost in making the wrong fundraising hire. Precious time is lost, capital isn’t raised, clients aren’t developed, and competitors step into the vacuum. Worst of all, the firm has to go through the search process all over again.
Here are the most common pain points associated with fundraising searches and our thoughts on how to handle them:

- **Culture.** We described earlier how cultural fit is crucial to an organization’s success. This is particularly so in businesses such as infrastructure firms and similarly entrepreneurial financial companies, which often are leanly staffed and tightly knit. The strongest candidates on paper may not be good cultural fits—so hiring firms should emphasize cultural due diligence, address cultural questions early in the process, and be willing to reject otherwise desirable talent if the cultural fit isn’t right.

- **Fundraising expectations.** It’s not uncommon for there to be differences in expectations between firm leadership and fundraisers about the fundraising process or the amount of capital to be raised. Firms should make their expectations clear up front and communicate them verbally and in writing before hiring.

- **Ownership of LP relationships.** Among funds that haven’t previously had dedicated fundraisers, partners frequently oversee LP relationships. Tampering with this status quo by hiring a fundraiser can be problematic for both funds and clients if not handled effectively. The entire partnership must agree to a shared, fully coordinated approach in order for the fundraising role to succeed.

- **Reliance on placement agents.** When we approach senior fundraising talent, clients often require a test of whether the candidate has sufficient experience in running a fundraise without placement agents. We thus invest considerable time in probing candidates on where they perceive their strengths to be—particularly in terms of regional coverage, type of institutional clients (e.g., insurance company, pension fund, family office, etc.), and any situations, if at all, in which the candidate might need a placement agent for help.

**Conclusion: A new dawn brings fresh challenges**

It’s a new dawn for infrastructure fundraising talent. As the asset class enjoys explosive growth and becomes more established, demand for the best fundraisers will only escalate.

Both hiring firms and candidates will confront challenges going forward. The pool of strong candidates is currently small, so firms should be prepared for an extended search period and potentially aggressive bidding as competition for talent heats up. As for candidates, their good fortune will come at the price of rising expectations not simply to deliver successful fundraises but also to assume greater levels of nonfundraising responsibility within their new firms.

The good news is that these challenges are manageable. Firms that are committed to hiring an ace fundraiser will position themselves to succeed, and top candidates will find a level of opportunity rarely available elsewhere. It’s a true win-win.

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