




TPG NEXT

GP Playbook

In Partnership with  CalPERS

Keys for Next Generation Managers

In 2022, the U.S. private equity industry and its companies generated [\\$1.7 trillion](#) of GDP. Today, diverse people account for roughly 30 percent, or [\\$5 trillion](#), of purchasing power in the U.S. The alternatives industry has growing influence in an economy that is increasingly more diverse.

Diverse ecosystems, however, remain significantly undercapitalized. [The Knight Foundation](#) estimates that women and diverse-led firms represent less than 2% of the alternative asset management industry’s AUM. The lack of diverse representation across the value chain of capital allocation represents a challenge but also a compelling investing opportunity for GPs and LPs alike.

We launched TPG NEXT to address this market inefficiency. We wanted to use our platform, capital, 30-plus year history, and business-building expertise to seed and support the next generation of alternative asset managers. By putting capital in the hands of diverse principal talent, we see an opportunity to not only align our industry with broader demographic trends but also deliver better performance. We believe there is a ripple effect to this work that will benefit underserved communities and ecosystems.

Launching a fund isn’t easy. It’s even harder when you don’t have access to the circles, networks, and pathways that have traditionally defined success in the alternatives space. **We designed this open-source playbook to demystify GP formation**, providing investor entrepreneurs with a behind-the-curtain look into the strategies and tactics that go into launching a business.



Companies that are ranked in the top quartile for gender diversity on exec teams are 25% more likely to have above-average profitability than companies in the bottom quartile ([McKinsey](#))



At the end of 2022, the universe of woman- and minority-owned firms grew to 760 firms, up 7x from 2014 ([Fairview](#))



Diverse people represent 40% of the population, but only 1.4% of U.S. AUM are in the hands of minority-owned firms ([Knight Foundation](#))



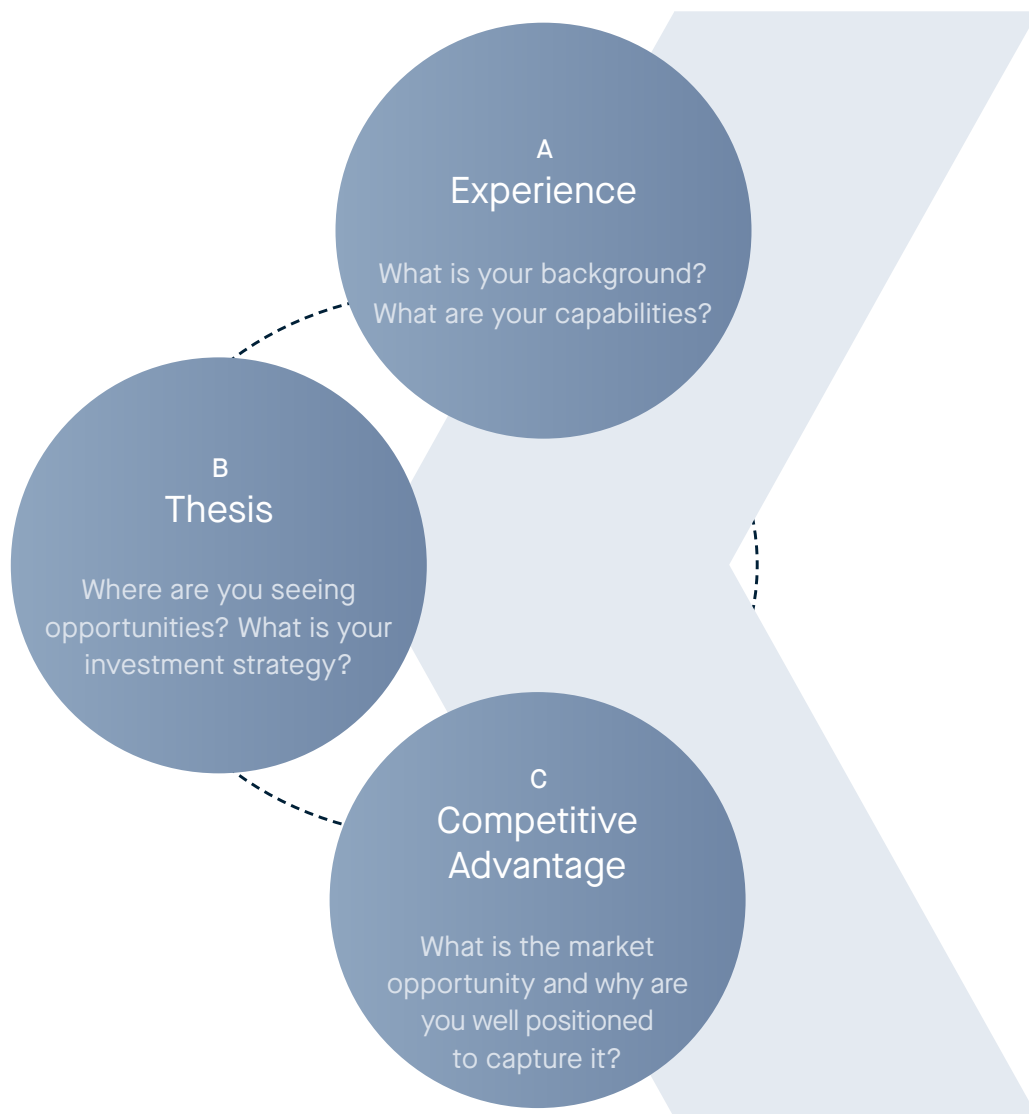
“There is a self-selecting bias in the market that fundamentally disadvantages diverse talent. These structural dynamics will continue unless we push ourselves to step outside of our traditional circles and invest behind people, ideas, and networks that are different.”

— Jon Winkelried, CEO of TPG

Define your Strategy

When you can define A and B, they combine to deliver C: **your differentiator**. Launching a fund begins with a clear articulation of your strategy – know your capabilities and mandate, and develop a concise and compelling message for what makes you unique.

Investors will seek to test your differentiation to assess what will ultimately sustain your competitive advantage. They will also compare your strategy to their existing manager relationships to gauge how complementary and/or additive your fund is to their other investments.



"CalPERS is committed to giving access and opportunity to new and innovative talent in the investment industry. We hope this partnership with TPG is the first step in developing an ecosystem that will catalyze the next generation of diverse talent and foster different ways of seeing and solving problems."

— Nicole Musicco, CIO of CalPERS

Operational Best Practices

Build your Firm

Investment Capabilities



Sector-Based Domain Expertise

What are the key differentiators of your knowledge and understanding of the industry in which you invest?

- Develop top-down, thematic sourcing
- Insights from operational experience
- Access derived from executive network

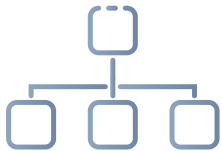


Post-Investment Value Creation

What are you doing to enhance the value of the business you acquire?

- Implementation of cost controls
- Augmentation of sales and marketing
- Upgrades in management and board talent
- Identification of acquisition candidates and other growth levers

Operating Capabilities



Organizational Infrastructure

How are you setting up your GP?

- Timeline of infrastructure setup should align with fundraising plans, target size, etc.
- Evaluate the trade-offs of outsourcing versus building dedicated capabilities
- Consider legal firm selection, support construction, feels, and ancillary services
- Milestone considerations for hiring in-house counsel



ESG

How are you set up to assess impact?

- Instill measurement and monitoring practices
- Consider when to hire dedicated resources, and define each role

Y Analytics is an independent organization where evidence and capital converge for public good. Organizations like Y Analytics help capital allocators better understand, value, and manage ESG, increasing the effectiveness and reach of invested capital



Capital Formation

How are you set up to raise capital?

- Fundraising: Timeline for when to hire a placement agent, when to build internal IR talent
- Marketing: Consider what constitutes high-quality offering materials



Information Technology

How are you set up to streamline and automate your systems?

- CRM utilization can be critical for sourcing vetting deal flow
- Consider and prioritize vendors for capital formation, accounting, reporting, and other core firm functions



Network Building

How are you set up to build your brand?

- What is your story, how and where are you communicating it?
- Website and social media
- Events, including remote and in-person activity

50 Questions to Answer and 10 to Ask in LP Meetings

Team

1. Who is on the leadership team?
2. Who owns the management company?
3. Who are the full-time professionals (investors, operators, administrators)?
4. Who are the part-time professionals (advisors, executive network)?
5. How is everyone compensated?
6. What is everyone's prior work history together?
7. How are the team members' skill sets complementary to one another?
8. What outstanding hiring needs remain?
9. Where is everyone based?
10. Have there been any key departures?

Process

1. How do you source investments?
2. Who sources investments?
3. How many investments have you sourced in the last year?
4. How do you determine which investments to advance?
5. How many investment opportunities are discussed at Investment Committee each month?
6. On average, how many times are investments discussed at Investment Committee before making investment decisions?
7. Who is on your Investment Committee?
8. How does the Investment Committee make investment decisions?
9. Does anyone on your team have veto rights on investment decisions?
10. What are examples of opportunities you have passed on? Missed?

Terms

1. What is your management fee?
2. What is your carried interest?
3. How is your waterfall structured?
4. How long is your investment period?
5. Who are your key person(s)?
6. What is your hard cap?
7. Who is on your LPAC?
8. What is your GP commitment?
9. When is your upcoming close?
10. Who are your biggest LPs?

Strategy

1. What is your investment asset class?
2. What sector(s) do you invest in?
3. What is your targeted investment geography?
4. What is your fund size?
5. What is your targeted equity commitments per investment?
6. What is the fund's targeted number of investments?
7. What is the fund's targeted ownership percentage per investment?
8. What is your expected loss ratio?
9. What are your underwriting targets?
10. How do you intend to achieve your underwriting targets?

Track Record

1. How much capital have you managed previously?
2. How many investments have you managed previously?
3. Over what time period and at what organization(s) did you invest previously?
4. How does the prior investment activity differ from and/or relate to the proposed investment strategy?
5. Do you have attribution on your prior investment activity?
6. Who can provide references to attest to your prior investments?
7. Which deal is most representative of your go-forward investment strategy?
8. Which prior investment represents your biggest lesson learned?
9. Are there parts of your track record you have omitted?
10. How would you rate your track record?

Questions For LPs

1. What is the size of your alternatives program?
2. How many people manage the program?
3. How are the investment decisions made?
4. How many new managers has the program backed in the last 5 years?
5. How many existing managers has the program re-committed to over the last 12 months?
6. Is there any current appetite for new GP relationships?
7. What are the key criteria for investment?
8. Is there an emphasis on diverse-led firms at your program?
9. Have you had any discontinued GP relationships in the program over the last 5 years?
10. Does the program separate decisions across alternatives?

Seeding Considerations

Customize Your Partnerships

Historically, managers relied on primary or direct LP commitments to raise their funds. As the alternatives industry has grown, new strategies and tools have emerged. Today, GPs and LPs have multiple avenues for accessing and investing capital.



Primary or Anchor

Commitments
LP invests directly in your fund



Co-Investments

LP invests in specific asset alongside you; success can help lead to fund commitments and longer-term partnerships



Secondaries

Liquidity tool that involves purchase of existing asset or interest



GP Stakes / Seeding

Partnering with a third party that takes a minority ownership stake in your GP

More than half of large private equity firms have engaged in GP stakes, with third-party ownership outpacing the rate at which new firms are launching. In addition to capital, these partnerships – often referred to as seeding in the case of new managers – provide emerging GPs access to their Partner’s brand, network, relationships, and expertise. Conversely, it’s an opportunity for a Partner to invest in innovative investor entrepreneurs and shape their stories from the beginning. Seeding partnerships have become even more attractive amid a challenging fundraising environment.

GP Stakes Market

2020E

530B

40% Forecasted Growth →

2025E

749B

Source: Dyal Capital via Buyouts Insider, GP Stakes Market Growing Faster than Funds Can Invest: Blue Owl's Rees (August 2022).

In exploring a seeding partnership, key considerations include:

- Working capital needs to support:
 - GP commitment, including long-term planning for multiple funds and broad ownership across the partnership
 - Operating expenses, including but not limited to hiring plans, office space, technological enablement, and other expenses
- Strategy expansion plan
- Succession planning efforts

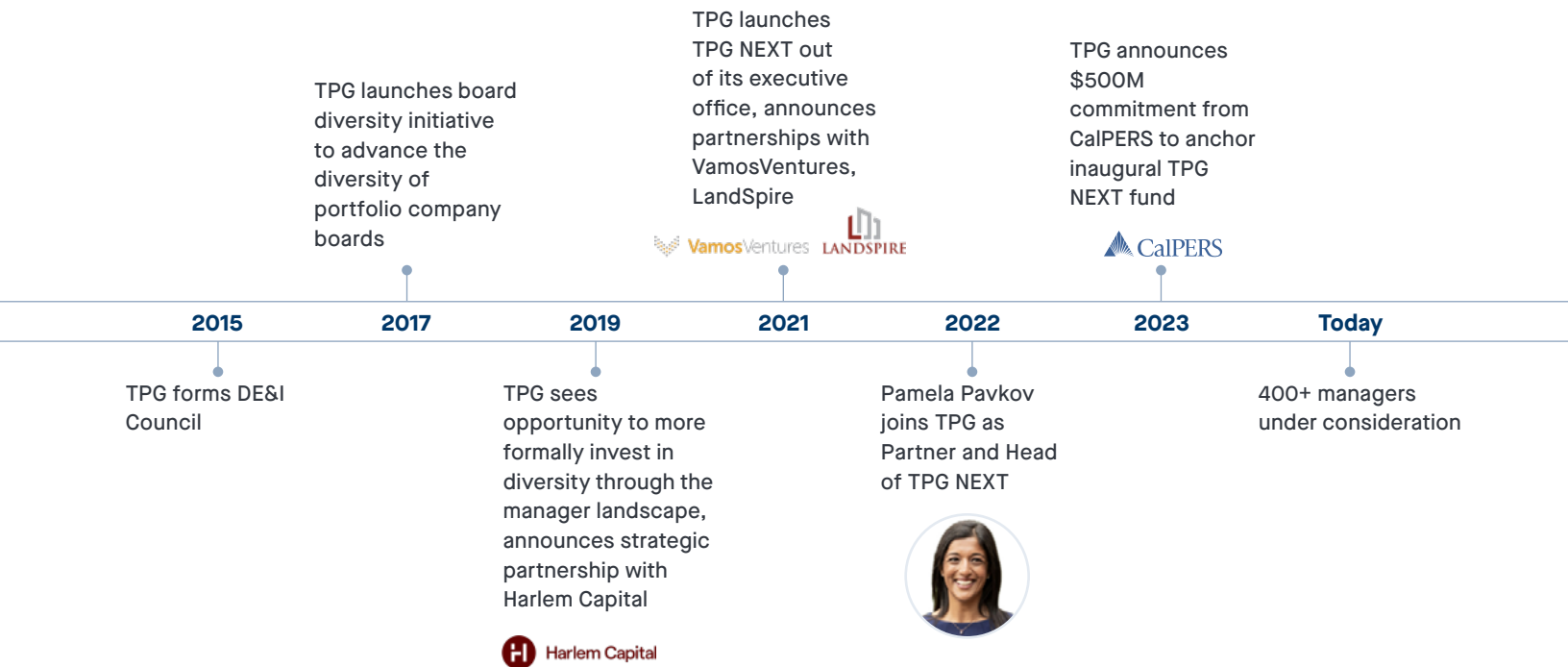
The building blocks of seeding or staking a manager include:

- Entitlements: gross or net of operations, inclusive of management fee and/or carried interest
- Discounts on fund commitments
- Duration and terms of equity investment
- Restrictive covenants
- Long-term partnership planning
- Liquidity rights and other investor protections

TPG NEXT

At A Glance

TPG launched TPG NEXT to seed new managers, strengthen their access to capital, offer business-building expertise, and provide strategic advisory support to talent that is chronically underrepresented in alternative asset management. We seek to partner with investor entrepreneurs as a founding, minority owner, bringing flexible capital and ecosystem resources to help launch, expand, and accelerate businesses.



Case Studies



- Founded in 2015 by Jarrid Tingle and Henri Pierre-Jacques
- Venture capital firm on a mission to change the face of entrepreneurship by investing in 1,000 diverse founders over the next 20 years
- Closed Fund I in 2019 at \$40M and Fund II in 2021 at \$134M



- Founded in 2016 by Marcos Gonzalez
- Venture capital fund focused on Latinx and diverse founders leading early-stage companies in the health and wellness, future of work, fintech, and sustainability spaces
- Closed Fund I in 2021 at \$50M

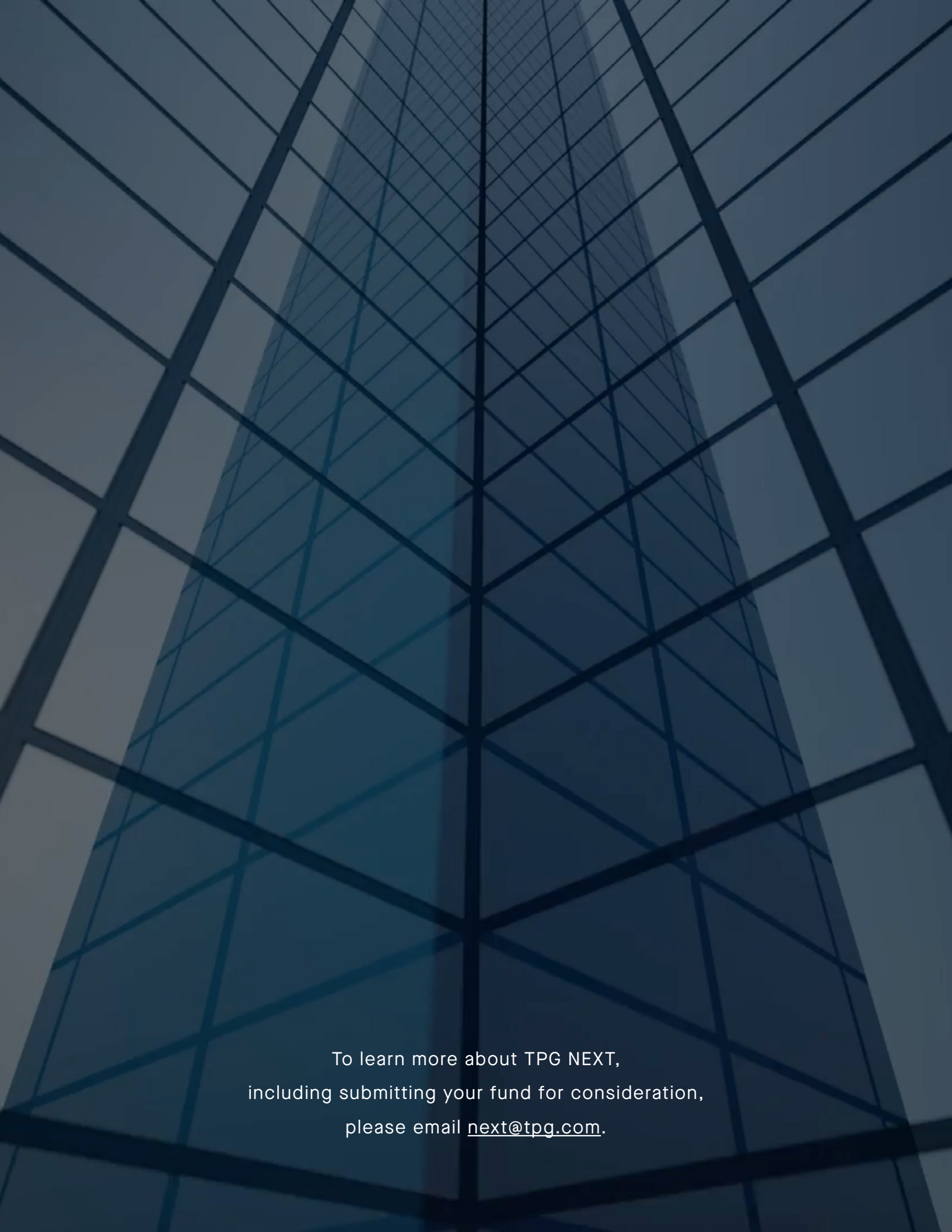


- Founded 50+ years ago and today is known as the largest network of diverse-owned alternative asset managers
- Focused on increasing the flow of capital to high-performing diverse investment managers through education, advocacy, and networking



"TPG NEXT is bringing purposeful, flexible capital to bridge the opportunity gap in our industry and develop and scale the next generation of diverse managers and diverse-led ecosystems."

— Anilu Vazquez-Ubarri, Partner and CHRO, TPG; Senior Sponsor of TPG NEXT



To learn more about TPG NEXT,
including submitting your fund for consideration,
please email next@tpg.com.