KENINGFORD PARTNERS

CAPITAL ADVISORY

INVESTOR GUIDE

How LPs Select Funds

How institutional limited partners underwrite emerging and established managers in a selective deployment environment.

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Limited partners are deploying more selectively than in prior cycles. Investment committees are spending more time on track record quality, team stability, portfolio construction, and the specificity of the manager's edge. For managers in the market, the practical consequence is that fundraises take longer, diligence goes deeper, and the standard of preparation that cleared the bar three years ago now merely earns a second meeting.

The selectivity is structural, not cyclical. Institutional allocators are managing denominator effects from prior-vintage commitments, slower distributions across their existing portfolios, and internal pressure to consolidate manager relationships rather than expand them. Every new commitment therefore competes not only against other funds in the market but against re-ups with incumbent managers the institution already knows. Understanding that competitive frame changes how a manager should present: the pitch is not merely that the fund is good, but that it earns a place on a roster that is actively shrinking.

KEY FINDINGS

01 LPs scrutinize track record net of fees, loss ratios, pacing, and team stability before terms.

02 Warm introductions from trusted advisors carry real weight; cold outreach rarely advances.

03 Disciplined portfolio strategy and realistic fund size win in competitive fundraises.

SECTION 01 OF 03

Diligence Priorities

LPs evaluate prior fund performance net of fees, loss ratios, pacing, and the consistency of underwriting through market cycles. Gross returns open the conversation; net returns, and the dispersion behind them, decide it. A track record with two outliers and a long tail of write-downs is read very differently from the same multiple built on consistent underwriting, because the LP is buying the process that produced the returns, not the returns themselves.

Attribution receives forensic attention. Committees want to know which partners sourced and drove each deal, whether those partners remain at the firm, and whether the economics of the new fund keep them there. Team stability has become a first-order diligence item: a spine of departures, or carry concentrated in a founder who no longer leads deals, will surface in reference calls regardless of what the fund materials say.

For emerging managers, the bar is higher on differentiation, anchor investor quality, and operational infrastructure. A first-time fund is asking an institution to underwrite a firm that does not yet exist, so evidence substitutes for history: a deal-by-deal track record with verifiable attribution, an anchor whose diligence other LPs respect, a back office that survives operational due diligence, and a thesis specific enough that the LP can articulate why this manager wins the deals the thesis targets.

SECTION 02 OF 03

Relationship Capital

Access matters. Warm introductions from trusted advisors, existing managers, or portfolio company CEOs carry weight. Cold outreach without a clear thesis and relevant comparables rarely advances, not because allocators are closed-minded but because the volume of inbound makes filtering by referral quality rational. The introduction is itself a data point: who was willing to spend credibility on this manager.

Relationship capital is built between fundraises, not during them. The managers who close efficiently are typically the ones who treated LP communication as a continuous discipline, sharing deal flow observations, honest portfolio updates, and market perspective in the years when they were not asking for money. An allocator who has watched a manager think in writing for two years commits faster than one meeting the firm for the first time alongside a PPM.

Consultants and gatekeepers deserve deliberate attention in that cadence. For many institutions, the consultant's rating determines whether the internal team can even bring a fund to committee. Managers should understand which consultants cover their strategy, engage them early, and treat their process with the same seriousness as a direct LP relationship, because functionally it is one.

SECTION 03 OF 03

Structuring Considerations

LPs are increasingly attentive to fee structures, key person provisions, and co-investment rights. The headline two-and-twenty matters less than the details around it: fee step-downs after the investment period, management fee offsets, the recycling provisions that determine how much capital actually reaches deals, and the waterfall mechanics that govern when carry is paid and clawed back. Sophisticated LPs read the LPA before the deck.

Key person and governance terms are negotiated with more energy than economics. Allocators have absorbed the lesson of funds where the named partners left mid-fund, so expect specific key person triggers, meaningful GP commitment sized to the principals' net worth rather than a token percentage, and advisory committee rights with substance. Co-investment has moved from a perk to a core part of many LPs' deployment models, and managers who can articulate a credible, fair co-investment allocation policy hold a real advantage.

Managers who present a disciplined portfolio strategy and realistic fund size relative to opportunity set are better positioned in competitive fundraises. Fund-size discipline is read as a proxy for alignment: a manager who raises to the strategy rather than to demand signals that carry, not fees, is the business model. The most damaging pattern an LP can find is strategy drift that tracks fund growth, larger checks, later stages, and broader sectors that quietly abandon the edge the track record was built on.

NEXT STEP

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