Placement agents were momentumous in 2013 for private equity fund-raising as the industry raised the largest amount of capital since the global financial crisis.

Of the funds currently in the market, more than 45% enlisted the services of a placement agent to secure commitments, according to data provider Preqin.

Established funds with a solid global investor base and a robust internal sales team are unlikely to enlist a placement agent.

However, agents with the relevant industry experience can quickly understand and “translate” a firm’s investment strategy and objectives to investors. Consequently, the fund-raising timeline is reduced as the “education process” and shortlisting of potential investors is expedited.

This process is invaluable, according to Fraser Van Rensburg of Acenta Capital. “A placement agent needs to craft their client’s message in a way that defines what they are doing that clearly differentiates them. If you give a limited partner even the slightest reason to say no, they will say no. This is a first impressions game.”

Reputable placement agents usually work on six to 10 fund-raising mandates a year and prefer to undertake those with low hanging fruit—funds with a “marketable story”.

First-time funds will not meet the requirements of a “marketable story” as their lack of a track record, insignificant assets under management and limited target for fund-raising discourages placement agents from considering it as a marketable opportunity.

The odds of securing a reputable agent are improved with the existence of an anchor investor, an institution, sovereign wealth fund or, in some cases, a celebrity. Anchor investors leverage their network and expertise to build fund-raising momentum and typically commit a larger portion of capital to reduce the perceived risk of the fund.

Cost is a crucial factor in hiring a placement agent and depends on the level of involvement required. Funds with suitably prepared marketing materials, a high level of investor demand and an outstanding track record will require less heavy lifting from an agent, resulting in lower fees.

A firm’s marketing budget for a placement agent should include a success fee—usually 2%—and a fixed monthly retainer fee. Agents prefer to include a retainer as it helps cement commitment on both sides.

Firms cannot escape the fact that pitching to the uninitiated is a challenge and using a suitable placement agent is an effective way for them to reach interested investors.

Firms should not adopt a cursory approach to evaluating an agent. It is essential to ensure that the agent is not only familiar with the fund’s investment strategy but can demonstrate a successful track record in raising similar mandates.

Recently, EIG Global Energy Partners ensured that its chosen placement agent—Credit Suisse—had experience in raising energy funds to secure $6 billion of limited partner commitments.

Even the best of strategies require a good story to encourage commitments, so who best to leave it to than the “man in the middle”?

Provided firms conduct thorough due diligence on their chosen agent, the chances are that all parties will be satisfied with the outcome, leaving general partners closer to achieving that coveted fund-raising status of being over-subscribed.