Buyouts

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INSIGHT

OceanSound's Benavides on raising a first-time fund in a pandemic

OceanSound closed its first fund on $780m, the largest Latino-led first-time fund ever raised. Buyouts spoke to Joe Benavides, the firm's managing partner and co-founder, about its debut

What is the story behind your debut fund?

The US economy is undergoing a massive transformation where the pace of technology adoption to drive productivity improvements is accelerating at an increasing rate. This dynamic is highly relevant to the government and regulated end markets that we know well. Our firm invests in mid-market tech and tech-enabled companies serving government and highly regulated markets, where our substantial expertise allows us to help build better, faster-growing businesses. We started the firm because we felt our team's focus and thesis was slightly different than where we were previously.

Joe Benavides

What was fundraising like during that period?

When we launched our process during the summer of 2019, we had expected some turbulence. The public equity markets and private equity fundraising markets had experienced strong growth since the global financial crisis and it was highly probable that the bull cycle was approaching a turning point. But we certainly had not expected a pandemic, which created conditions that were more challenging for first-time funds than anything that had been experienced previously in PE.
We have seen different types of recessions. We have seen unprecedented dislocation like we experienced post-9/11. But what we had not seen was a situation where organizations of all kinds, certainly private equity investors, did not participate in face-to-face meetings for a period that lasted many months. How can you enter into what had historically been a high-touch, high-trust relationship with LPs when you can't even get in front of them?

Fortunately, my team and I all came from respected backgrounds at firms such Veritas Capital and Blackstone. Those experiences led to some anchor capital commitments, pre-covid, that allowed us to begin making investments during 2020. Those investments were critical proof points of what we stood for as a firm.

What were the biggest challenges in getting your first fund over the line?

We are very proud of the team we have built. We have many years of experience working together. However, there are a lot of balls in the air for any emerging manager. You not only have to build the firm and ensure that you have all of the processes in place, but you also have to raise a fund and execute new investments. Established fund managers have the firm building and process piece in a far more settled place than an emerging manager. Underneath all the major objectives for an emerging manager, there were many workstreams that were challenging as a first-time fund. Among them was coordinating the bespoke and intensive first-time fund diligence processes of various LPs towards a set timeline – it is a challenging exercise in parallel processing for reasons that are natural.

How open are investors to emerging managers?

Investors are very open to emerging managers. However, it is a difficult process for them. The purpose of an institutional investor is to preserve capital and generate strong returns while being as operationally efficient as possible to invest and deploy capital. Emerging managers, as a general matter, have a variety of start-up and blind pool risks. Therefore, first-time fund commitments are the hardest "yes" decisions that an institutional investor needs to make. That said, there is ample analysis and evidence that a well-crafted portfolio of emerging managers outperforms a portfolio of larger, well-established private equity funds, so there's a strong economic rationale for increasing exposure to emerging managers.