

Rise of UK Emerging Managers – “Breakthrough Vs Failure”

Introduction

With an increasing number of first-time and emerging managers entering the market in a constantly evolving regulatory environment, the need for careful setup, conviction of strategy, and the choosing of the appropriate operational partners has never been greater. In this short paper we look at some of the trends, drivers of success, and key considerations around this vital, often under-serviced, area of the funds market. And in our view the potential considerations that will be the difference between breakthrough or failure.

A first-time or emerging manager can be defined as any sponsor involved in setting up a first fund or sponsor having launched fewer than 3 vintages. As we look closer at this demographic, we find there's a growing appeal for emerging managers as they increasingly appear to be reaching areas where others cannot, at a time when the market is potentially ripe for this type of differentiation.

Emerging managers are carving out space in LP portfolios, offering LPs access to opportunities that are different and potentially more niche and focussed than those of established much larger blind-pool funds. First-time and emerging managers are achieving top quartile performance 34% of the time, compared to 25% for all funds, delivering returns that are 250 basis points higher on average. *The data supports the demand in the market for these products, put together by high-quality teams.

The significance of emerging managers is steadily increasing as LPs, in particular Family Office and Ultra HNW LPs, constantly search for alpha.

34%

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*Source: (NAIC National Association of Investment Companies)

What do Emerging Managers provide?

Emerging managers are usually at the forefront of change and progression. They offer a host of valuable attributes, some of which are not quantifiable. Individuals or teams that become emerging managers usually originate from larger established managers with an environment of fully fledged, functioning departments and smooth internal operating systems.

Their background separates them from the day-to-day operations and challenges of running a fund.

When these individuals or teams eventually decide to spin-out acting as independent sponsors of their own funds, they'll usually bring an array of experiences from previous roles within established managers. Experiences which span many years, comprised of market cycles, sector changes, evolving technologies, cultural shifts and regulatory changes.

Having these insights and array of experiences within established successful managers bring a tangible impact on how these new fund managers operate and perform, being able to institute winning formulas and disregard inefficient processes.

Emerging sponsors possess a hunger and determination to succeed, seeking to establish themselves in a very competitive market, needing to perform exceptionally to gain attention. The need to stand-out amongst competitors is a key, often achieved by emerging managers who clearly set out their strategy with strong conviction in their ideas. This can then be backed by robust, expertly developed business cases and strategies, which will likely be deemed preferable to a widely cast net or seemingly reactive or opportunistically developed sector strategy.

These managers help drive and create new market strategies and innovations, which keep sectors and investment approaches evolving.

Performance

37%

Percentage of fund launches attributed to first-time managers

YTD data for 2025 is still being collected as funds don't report as soon as they close, which creates a lag in data.

(We'll have a clearer picture of 2025 in 2026, and we will follow-up on examining the trends with emerging managers launching funds in the UK in 2025)

In the first three quarters of 2024, 37% of fund launches were attributed to first-time managers. A further breakdown of 2023 and 2024 reveal the following.

Private Capital Funds / Emerging Managers in 2023/24 | UK



Source: Prequin Pro

26%

1st - time fund launches in the UK increased by 26% between 2023-2024

Between the years 2023 and 2024, 1st - time fund launches in the UK increased by 26%, while 2nd-time launches only saw an increase of 5%, and 3rd-time fund launches saw a decrease of 35%, year on year.

This could suggest the transition from launching fund 1 to succession funds is exponentially more challenging, but this may also suggest a 'natural selection' process where only the top performing fund managers survive.

However, data* on emerging managers also shows that across almost all alternative asset classes new and smaller funds tend to outperform their established counterparts.

Some of these emerging funds are testing unique strategies. But many, as a function of their size, are simply able to take advantage of opportunities at the smaller end of the market that may have greater upside potential.

Performance is of course a fundamental driver for success for an emerging manager but if performance is not lacking then what else could be the obstacle to progress and subsequent fund launches after fund 1?

Operational infrastructure is often cited by LPs and fund sponsors as one of the main obstacles to progress and not performance.

Challenges & Solutions

The challenges faced by emerging managers have been a longstanding feature of the industry, and market circumstances in recent times has further exacerbated these challenges. All too often, promising and ascendant emerging managers have been stifled and ultimately unable to break through the glass-ceiling, but with careful fund formation planning and setup, these challenges can be partially or wholly mitigated.

Challenges faced by early vintage funds range from:

- Raising capital in a risk-averse environment.
- Managing liquidity and risk in a volatile market.
- Navigating an evolving regulatory landscape.
- Differentiating in a crowded market.
- Preparing adequately to scale and grow.

Funds that overcome these challenges and establish themselves share several key traits that underpin durable LP relationships, a strong track record, and success across market cycles.

Maximum Fund Operational Efficiency is Key

This feature cannot be overstated for funds and proves to be one of the most important features and key drivers for continued success in this area of the market.

With the right operational infrastructure and strong cross-department alignment, funds can reduce costs, improve efficiency, and better navigate changing market conditions. This also allows managers to stay focused on core investor and investment activities that drive fund outcomes.

*Source: 1 As Mega Alts Funds Appear, Emerging Managers Face Bigger Hurdles," AI-CIO, July 2024

Engaging the Right Operating Partners

Sharing critical fund operations with the right operational partners presents huge benefits. With the right partner handling essential back-office and middle-office functions, a major burden is lifted from managers, enabling them to focus on their core functions, such as fund raising, managing the overall direction of the fund, engaging with investors, and driving returns for those investors. With the right operational partner, the fund can also benefit from the oversight and expertise provided through technology and experienced teams and individuals, helping maintain market standards, and best practise for investment decisions and adherence to regulatory requirements. The right operational partner brings an added layer of stability, efficiency, precision, and better LP experiences.

Find Your Perfect Setup

There is no “one size fits all” solution, however when a fund assembles their operational infrastructure, they’ll piece together a structure which will lay down the foundation that may be the basis of success or failure. With the right setup, there is an efficient flow of information between operational partners and any service providers. Investment decisions are made and approved efficiently, and scope for scalability is built in. Inadequate operational infrastructure has frequently been cited as a reason why LPs have chosen not to invest. LPs often have a long-term horizon and prefer to invest on a long-term basis, wanting to invest into future vintages with the same trusted managers. If LPs are unable to envisage the funds’ ability to scale, they often tend to pause the investment until this is resolved or decide not to invest altogether.

Manage Regulatory Landscape

A key decision for new managers wanting to launch first time funds and establish themselves, is whether to become fully authorised as an AIFM (Alternative Investment Fund Manager) with the FCA under the UK AIFMD (Alternative Investment Fund Managers Directive).

This decision will have far reaching implications, regarding speed of access to market, costs, capital requirements, resources and expertise. This undertaking means relevant processes and protocols must be instituted across several areas of fund management, including portfolio management, risk management, compliance, marketing & distribution, valuations, and regulatory reporting. The time needed to obtain resource, expertise and experience to properly establish and implement this is substantial (in some cases taking up to 24 months), and not a path all managers may necessarily want to go down. The option of collaborating with an operational partner, who has the full capabilities, experience and expertise of liaising with the regulator and fulfilling all these regulated activities, provides a highly beneficial, cost and time efficient alternative. They can rest assured that these fund activities are being properly managed, fully compliant and in-line with current regulation, while remaining totally focussed on their core function of prompt access to market opportunities and performance and developing investor relationships.

Investor Relations

The need to raise capital is always at the forefront of fund managers minds, without investors there is no fund. The temptation to try and be all things to all potential investors is always a risk. Whereas there is a short-term benefit to offering favourable terms to anchor and early investors, it’s essential that these conditions are not offered indefinitely

and harmonisation of terms with all investors is achieved at some point. Having a clearly defined investor base will also help focus managers' attentions and help prescribe resources in the right areas.

There is also a significant benefit to having a very clear, cohesive and consistent investment strategy giving confidence to investors of the necessary expertise and conviction behind the strategy, as opposed to seeming opportunistic or purely reactive.

Managers who can demonstrate very clear conviction, with clear parameters for their strategy, evidenced with good track record, often pick up greater traction with investors. In the early stages of an emerging manager's journey, building a track record should be a key focus as it signals credibility, discipline and the effectiveness of your strategy across market cycles. The combination of performance, clear strategy, track record, operational efficiency and seamless scalability, powers emerging managers to engage with their intended investor base on a strong long-term footing.

Managers can then focus on LP engagement and the development of their relationships with their LPs, paying close attention to their LPs' experience.

Why Thompson Taraz?

A leading, privately-owned UK fund services group, with a reputation for operational excellence and long-term client relationships. Thompson Taraz is well placed to help emerging managers navigate the ever-changing landscape of alternative investment funds, having provided this expertise to a range of emerging managers throughout our 35 years in business. We have numerous client relationships that span decades, founded on our ability to evolve alongside fund sponsors/managers and to play an active role in helping them through their evolution.

End-to End Solution

Fully regulated by the FCA, Thompson Taraz provides a full suite of services for UK alternative investment funds across the spectrum of Private Markets.

These services include:

- AIFM (Full scope)
- Fund Administration
- SPV Services
- Depositary Services

Having a single vendor providing these critical operational functions, mean an emerging manager benefits from enormous operational efficiencies, enabling the manager to maximise the fund's overall effectiveness and efficiency.

Boutique Services vs Mega-Sized

As a leading boutique, our focus is centred on client engagement and providing the highest levels of service delivery. Solutions are specifically tailored to meet the requirements for each client, offering levels of engagement necessary to meet the needs of an emerging manager, alleviating the operational burden and allowing them to focus on their core responsibilities.

Expertise and Experience

With extensive experience across Private Equity, Real Assets and Private Debt, Thompson Taraz delivers significant value as a manager, administrator, and strategic partner.

Having executed over £2 billion in transactions, our full scope AIFM solutions encompasses essential fund management roles and duties which include:

- Portfolio Management
- Risk Management
- Compliance
- Marketing and distribution in the UK
- Valuation of assets
- Regulatory reporting

Our AIFM solutions are available to regulated entities such as fund sponsors with advisory or arranging permissions. We can also assist firms with their regulatory setup helping them map out the required authorisations to operate. Whether considering a host AR (Appointed Representative) while pursuing their own regulatory authorisations or an alternative regulatory solution, we're well placed to assist in putting all the necessary parts in place.

As a manager, our collaborative partnership-driven approach ensures co-created solutions and consistently delivers the right outcomes.

To find out more about more how Thompson Taraz can help you with your fund operations and next fund launch, please contact us at:

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