



## Episode 122: When the First Fundraise Is in the Bank, With Henry Yan

### Episode Summary

“Fund one is tough,” says [Henry Yan](#), principal at Whistler Capital Partners, reflecting on the firm’s successful first fundraise. In this conversation with McGuireWoods partner and host [Geoff Cockrell](#), Henry unpacks the challenges and opportunities of raising capital as an emerging manager in today’s competitive fundraising environment.

Tune in for his thoughts about the use of placement agents for emerging managers, the importance of co-investment opportunities in building LP relationships and the increasing focus by European investors on U.S. lower middle-market buyout opportunities.

### Transcript

Voice Over (00:00):

This is The Corner Series, a McGuireWoods series exploring business and legal issues prevalent in today's private equity industry. Tune in with McGuireWoods partner Geoff Cockrell as he and specialists share real-world insight to help enhance your knowledge.

Geoff Cockrell (00:19):

Thank you for joining another episode of The Corner Series. I'm your host, Geoff Cockrell, a partner at McGuireWoods. Here at The Corner Series, we try to bring together deal makers and thought leaders at the intersection of healthcare and private equity.

(00:32):

Today I'm joined by Henry Yan, a principal at Whistler Capital. Whistler just finished raising their first fund, and we're going to talk some about the fundraising environment and just hear a little bit about what Whistler's experience has been. Henry, maybe you could introduce yourself and give a little bit of background of Whistler Capital.

Henry Yan (00:48):

Thanks very much, Geoff, for having me. Really excited for this one. We are, by quick way of introduction, a lower middle-market healthcare private equity firm based in Nashville, Tennessee. We just concluded our first fundraising, as you had mentioned. My background is I've always been on the IR and fundraising side of things. Started out in-house with a firm called MHR Fund Management in New York, then went to two placement agents, Probitas Partners and Campbell Lutyens before heading out to Asia during the COVID years with a firm called CBC Group. I believe they're still the largest healthcare-dedicated private equity firm in that part of the world. Came back, and then joined Whistler.

Geoff Cockrell (01:28):

Congratulations on the closing of the fund, a tremendous accomplishment in an environment where that can be challenging. Would love to hear your thoughts, you guys as an emerging manager, how long it took and just your overall experience raising the first fund.

Henry Yan (01:43):

Fund one is tough. I think the general market is tough, as we all know. I joined Whistler when we were essentially in the middle of the fundraise, and we were able to galvanize momentum over the course of the last year or so, closed very successfully. That fund are very, very grateful to those partners who decided to support us from beginning to the end, but it was tough. I think it requires a lot of buy-in and to not only the strategy, the sector, the team, the initial investments that we were overseeing, but overall we're very, very appreciative of folks both institutional and on the family office side who have supported us.

Geoff Cockrell (02:25):

To what extent was being a healthcare-specific fund an asset or a liability, or I imagine it might have been a little bit of both, but what was the impact of being a healthcare fund?

Henry Yan (02:36):

You're right, it was both. I think you get an initial screen of folks who are very interested in the space. They're cognizant that healthcare is at least 20% of GDP. They should be looking at this, they should be spending time on this. But then on the other hand, you have folks who quite candidly say during the meeting or that intro call, they'll say, "You know what, we've gotten burned in the past, so we are not going to look at it for a little bit." So you get a little bit of both, but I do think in this day and age, you have a really newfound appreciation for sector specialists. I think in the world of healthcare, it's really tough to be a tourist, as we like to say. There's obviously a number of successful generalist firms out there, but I do think given the depth and the sophistication of the US healthcare market in particular being a specialist helps.

Geoff Cockrell (03:27):

There were a lot of investors over the last five years that dove into the provider services consolidation movement. That kind of intersection has become more difficult. There's still certainly a lot of interesting thesis within that, but overall, there's less activity. To what extent was your guys' investment background centered on provider services, and did you have to pivot any in response to some of the market reaction to that particular subsector?

Henry Yan (04:01):

Good, great question. So in terms of our team's focus, it's always been centered around this ethos of medical appropriateness. So what that means to us, instead of focusing on the downstream specialties such as dental or cardiology, et cetera, the emphasis has always been on the front end of care. So really looking at patient care navigation, coordination, diagnostics, primary care, everything that's aiding and really supporting the patient's journey, and ideally identifying root causes early rather than going further downstream.

(04:35):

And so to that end, our portfolio has always been really centered around this idea of medical appropriateness as well as healthcare business services, really helping to make fundamentally sound businesses more efficient and run better, and obviously investing into them at impactful inflection points rather than any of these downstream specialties, as I said.

Geoff Cockrell (04:59):

Did you guys use a placement agent? And there's different kind of versions of how people will use them beginning to end. Some will only be coming in when you've got some material anchors in place, others are just topping things off. How do you guys think about placement agents?

Henry Yan (05:17):

We did. We think that they can be extremely beneficial, especially for an emerging manager. I think when you think about it, most of the spin outs and emerging managers that you see were the best-deal people. They were never the best fundraisers, the best [inaudible 00:05:34] folks. They may have sat in on on-site meetings and due-diligence sessions, but I think being able to run a successful fundraising campaign does take experience, and obviously, I'm the first one to say that.

(05:47):

I do think they could be very helpful, and I certainly think that for emerging managers, it really is critical to find the right partner. Someone who's well-versed in, for example, lower middle-market buyout, someone who's not necessarily partnering with the 3 billion-fund aides of the world, but someone who really knows that being able to craft, being able to deliver that story and message is first and foremost and most important thing. But also helping the investment team really understand

the nuances of investor communication, investor partnerships, and really driving that point home. So it's definitely something that we're appreciative of and something that we will consider in the future.

Geoff Cockrell (06:30):

What would you describe as a Whistler's differentiator in your elevator speech about Whistler when you're talking with a family office or a potential investor? What's the differentiator that you would describe?

Henry Yan (06:42):

We're national based. And I have to confess myself that I hadn't appreciated how much of a healthcare services capital Nashville is until I joined. I still remember.

Geoff Cockrell (06:55):

What difference does that make on the ... I mean, obviously, there's investment opportunities in Nashville, but a lot of opportunities are outside of that from where to invest. What's been the benefit of being in Nashville?

Henry Yan (07:07):

I think aside from deal flow, as you had said, it's operating talent. I think it also really, really helps from a sourcing perspective sitting across the table from a founder and relaying to them, "Hey, look, we're actually based in Nashville. We live and breathe healthcare every day. We're not sitting on Park Avenue in New York, which is great because obviously there's plenty of healthcare firms that are based in New York, but a lot of that flow is going to be broker. It's not going to be directly with the founders."

(07:36):

I think it's very different being here in Nashville over the last six, seven plus years, which my team has been, essentially moving here pre-COVID. I think establishing those networks, that community, those ties really does go a long way. And even when you look at our operating partners, more than half of them sit in Nashville. And this is a message and a point that we're having to emphasize again and again because everyone, I think, broadly speaking, always associates Austin or Chicago or even San Diego with healthcare, they don't really think of Nashville, but it is becoming more top of mind, especially as of late.

Geoff Cockrell (08:15):

Yeah, I've had people describe that exact nuance as the Silicon Valley effect where Silicon Valley, yeah, there's a lot of companies out there, but there's just a lot of operating people there, and the talent pool is thick, and that opens up pathways to build teams. And network within that community can be really impactful.

Henry Yan (08:38):

Definitely, definitely. And I do think another point of differentiation for us is that when you look at our experience on the investment side as well as on the operating side, it's really grounded in technology and tech-enabled. And I know there's plenty of other healthcare services firms that really espouse and expand upon their capabilities on that front, but I can assure you that we certainly punch above our weight in terms of our technological and tech-enabled prowess. It's what we've lived and breathed, it's what my team did before they spun out of their predecessor firm, and it's very much what we hone in on nowadays.

Geoff Cockrell (09:15):

I know your kind of roles there are more focused on the IR side of the house, but on the investing side, what kind of areas within healthcare do you find the most interesting as a fund?

Henry Yan (09:28):

We think cybersecurity, we think GRC or governance risk and compliance. I think there's obviously certain potential pitfalls related to AI that we want to be very, very mindful of, but I think that's an area that we really like. I think primary care is something that my team has honed in on over the last two, three years, really speaking to all the notable players in this space, building those relationships, making sure that we have first looks wherever possible. I think other areas are also patient care, navigation, and coordination. I think these are all areas that really stand out to us.

Geoff Cockrell (10:05):

You mentioned AI, talked to a number of investors that view AI as both a threat to certain theses, but also an opportunity. Where do you guys see the opportunities surrounding AI, or is it mostly just threat mitigation?

Henry Yan (10:20):

I think aside from threat mitigation, it's really helping to amplify the growth and efficiency across our portfolio. I mean, when you look at our initial set of investments, we've been really able to leverage the expertise of our operating talent to build upon the existing strength of those companies. And a lot of it's not going to be rocket science. It's certainly above my pay grade, but it's something that we've been able to really capitalize on over the last two years since we've been deploying our fund portfolio.

Geoff Cockrell (10:55):

So looping back to the fact that you're a first-time fund and emerging managers, what types of investors were drawn to you guys as both an emerging manager and as a healthcare fund in particular?

Henry Yan (11:06):

I think naturally you think fund-to-funds. I think fund-to-funds, their remit has always been to find the next generation of managers that can potentially outperform. So we've certainly have had a lot of great dialogue with your blue chip fund-to-funds, a lot of your more up and coming fund-to-funds that are raising new capital, new funds. I mean, typically now I feel many fund-to-funds call these funds access funds, so that's certainly been in the mix for our fundraise over the course of fund one.

(11:36):

I would say family offices, I would say a number of these folks are just hitting their stride over the last 5 to 10 years. Many of them don't have as much of a laser focus on DPI. Many of them are not overcap allocated. In fact, some of them have deployment pressure, and a number of them are, as you can imagine, focused on co-investment on lower middle-market funds, smaller funds where their dollars make a lot more of an impact, both in terms of the commitment, but also in terms of what they can bring, in terms of synergies and contributions, to the table. We've been very, very grateful for that.

(12:13):

And I would also say ENFs. I think ENFs have been a bit crushed in terms of allocation, but their remit and mandate has always been to find the next generation of outperformers on the GP side.

Geoff Cockrell (12:27):

The fund-to-funds market is not super hard to navigate, at least in the sense of identifying who's out there. The family office, LP universe can be a little bit more opaque. How'd you guys think about navigating the family office, LP environment?

Henry Yan (12:45):

That's a great question. Much of it is grounded in referrals and warm interest. As you can imagine, the networks on the family office side are just as robust as institutional, or I should say other institutional investors, if not better. So we've really benefited from those impacts. And I would say we have been heading to a number of conferences such as your guys' McGuireWoods Emerging Manager Conference pre-April. We have found that to easily be the best emerging manager conference in terms of efficiency, in terms of quality of attendees, in terms of organization. I mean, it was our first time attending this past April, and it was just a phenomenal experience. We already signed up for next year, and really excited about that.

Geoff Cockrell (13:35):

Given your size, how deeply into co-investment opportunities do you guys lean as a fund? There's different schools of thought on that at your size range that's often a leading card that they play. How do you guys think about that?

Henry Yan (13:48):

Yeah, for us, it's a need-to-have; it's not a nice-to-have. So even when my investment team were at their predecessor firm, half of the capital they deployed was co-investment capital, and that was across every single deal. So in our current portfolio, there has been a robust amount of co-investment offered and taken up, and it's a great way to build relationships.

(14:11):

I think this is not something new, and I'm sure you've heard this before, but many LPs now would love to review an active co-investment as they build a relationship, get a feel for how you complete due diligence, how you source, you run your process internally. So it is very much our preference to loop in potential partners as early on in the process as possible. We try to avoid giving folks three to four weeks. We try to give them three months just to really tee them up on the opportunities set, the particular subsector, the nuances of the deal just so they can track it from the very beginning. I think that is a point of differentiation, especially in the lower middle-market segment of the buyout space. So it is critical for us.

(14:53):

And I would say for our broader investor base, some of them love co-investment, others won't touch it. We're fine with either, of course, but we're always keen to figure out other ways to build partnerships and broaden the partnership aperture with our investors beyond just their funding limit.

Geoff Cockrell (15:13):

People often mean different things when they describe middle market and lower middle market as far as size. For you all, if you're to translate that into enterprise value for an entry point, what's your kind of ideal range of entry points from a valuation perspective?

Henry Yan (15:29):

Yeah, that's a great question. For us, it would be 5 to 20 million of EBITDA, \$50 million plus of revenue, and across portfolio companies. Currently, all the founders are involved, and so I think that's certainly part and parcel to our strategy, is really identifying management teams and executive teams that we like to partner with and augment. We don't take the approach of a rip and replace. That's not our style. We very much want to be founder-friendly, and I think that shows in both the track record as well as our current portfolio.

Geoff Cockrell (16:05):

What's your guys' thoughts on debt at entry?

Henry Yan (16:11):

It's certainly not a must-have for us, especially on the lower middle market. It's something that we'll tap into either 18 to 24 months after we make the initial investment. I think we are very, very prudent

in terms of our use of leverage. Of course, we want to make sure we're accessing them at the right point, but it's not a must-have or a must-do at onset.

Geoff Cockrell (16:33):

You mentioned founder focus. Are you exclusively buying from founders, or do you ever do direct from other financial buyers?

Henry Yan (16:43):

We'll certainly consider the latter. I don't think we want to turn off that segment of the sourcing spigot, but for us, the focus is very much on proprietary off-the-run opportunities with founders, many of whom we've been chatting with for years. I mean, I think one pipeline opportunity just recently, the guys have been speaking to him for about seven years.

Geoff Cockrell (17:06):

Do you guys dip into the independent sponsor arena? That can be a point of access for fishing upstream. Is that something you guys will look at and do?

Henry Yan (17:18):

Yeah, that one's a little bit edgier for us, I would say, and I don't speak for the team on this one, but I would say that's not something that we necessarily focus on when we source.

Geoff Cockrell (17:28):

So Henry, you mentioned that you spent some time in Asia. Give us a little bit of your thoughts on middle market, lower middle-market funds, accessing international sources of capital. What's been your experience? And any words of advice for other emerging managers that might find that entire arena a little daunting or inaccessible. How do you think about international investors?

Henry Yan (17:50):

Yeah, absolutely. For international, my impression has always been that for Asia and Middle East, it doesn't really make sense until about fund three or earlier. I think these two regions both appreciate fund size being a slight larger, and they also want to see a bit of a name brand in the names that they sieve through.

(18:13):

Now, that said, I think for Europe, I have noticed, especially over the course of our first fundraise, that many European investors are laser focused on US lower middle-market buyout. They look to the US as the deepest market, both in terms of deals and opportunities, certainly in terms of capital markets depth. And so over the course of our first fund, we've had a number of really promising, really exciting dialogue with European investors. We actually have a handful of European investors in our fund one.

That has certainly been held by the fact that our anchor is French, but more broadly speaking, I do think you see Europeans keen on deploying capital.

(18:57):

My guess is that over the course of 2020 into 2021, they were not as eager to deploy into the market, and so as such, I have actually saved up some allocation that they've been able to tap into over the last couple of years.

(19:13):

We were actually in Paris recently for a conference, and I don't know if DPI came up more than a couple of times, whereas when you go to a conference here in the US, it's DPI, DPI, DPI, all day, every day. So we're excited about building that dialogue as we look into our next fund and beyond.

Geoff Cockrell (19:34):

Henry, really appreciate you joining me. And again, congratulations on closing the first fund. Having another active healthcare investor is always great for the market. And welcome to the mix. This will be a ton of fun, but thank you again for joining me.

Henry Yan (19:50):

Absolutely. Thanks so much, Geoff. Really appreciate you taking the time.

Voice Over (19:58):

Thank you for joining us on this installment of The Corner Series. To learn more about today's discussion, please email host Geoff Cockrell at [gcockrell@mcguirewoods.com](mailto:gcockrell@mcguirewoods.com). We look forward to hearing from you.

(20:12):

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