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Term Sheet

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Exclusive: Chicago private equity firm raises billions in short order

Posted by Dan Primack
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GTCR The rule of private equity fundraising in 2011 is that it's a long, long slog. Research firm Preqin recently reported that the typical process now spans 18 months, up from just around 12 months before the credit crisis. But, like with any rule, there are exceptions.

One of those is GTCR, which Fortune learned has closed its 10th fund after less than eight months in market. The Chicago-based firm began fundraising last July with a $3 billion target, and wrapped things up last Friday with $3.25 billion. Expect a formal announcement later today.

So why did GTCR succeed so quickly? Seems there were three main factors in play:

1. Track record: This is almost the most important thing for any firm, and GTCR has delivered. According to data from the Washington State Investment Board, GTCR's seventh fund (2000) was sporting nearly a 22% IRR as of 9/30/10, while its eighth fund (2003) came in at 27%. Oh, and a Fund VII annex was at a whopping 83%. GTCR's ninth fund was slightly underwater, but my understanding is that it has since rebounded into the black thanks to both exits and overall valuation increases based on mark-to-market accounting.

2. Differentiated strategy: GTCR is a leveraged buyout firm, but distinguishes itself by focusing almost exclusively on platform investments. Half the time this means buying a company which will serve as the base for future bolt-on acquisitions, and half the time it means committing dollars to a management team that is tasked with finding companies to buy in a particular vertical. GTCR is not alone in this strategy, but its dedication to the model helps it stand out from the slew of vanilla buyout firms looking to raise new money

3. LP-friendly terms: Not just on this fund, but historically. GTCR is one of precious few PE firms whose general partner does not take any deal fees. No wonder it has never had any of its LP interests sold on the open secondary market – beyond being transferred from one existing LP to another existing LP. There had been talk that GTCR was being pressured by LPs to be even more investor-friendly – by adding a preferred return – but the firm tells me that the push came from one particular investor, which didn't end up participating.

Worth noting, however, that GTCR didn't always have things so easy. Back in 1980, it took the firm 18 months to raise $60 million for its debut fund… Not terrible for the times, and would have been perfectly acceptable 30 years later.

Also, this is the first GTCR fund that does not feature G, T, C or R in the partnership (Stanley Golder, Carl Thoma, Bryan Cressey or Bruce Rauner. The last remaining member was Rauner, who had largely stepped back from day-to-day operations some time ago, and made his transition official prior to the fundraising effort. Golder passed away in 2000, while Thoma and Cressey left in 1998 to form their own firm (which since has split in half).