

Hedge Fund Marketing — Making The Most Of Your Salesperson

by Bruce Frummerman, Frummerman & Nemeth Inc.

Since my financial communications and sales marketing firm opened its doors in 1987 pre-crash, 80% of the money managers who have contacted my firm satisfied with their performance but frustrated with their selling efforts have shared two key marketing errors.

First, they were having their sales people go after the wrong types of investors. Next, they had not equipped their sales people with all of the information that sophisticated investors require in their due diligence efforts, so the sales staff was trying to sell without all the content prospective investors expected them to deliver - beginning with the first sales meeting.

Simply hiring sales people and telling them to go raise assets is surely not a sales marketing action plan, nor is it a recipe for success. Hedge fund firm owners who either do not manage or who mismanage their sales staff end up learning a costly lesson in what not to do; costly in both operational dollars misspent, and in possibly burned relationships with potential future investors who are in their book of contacts.

To make the most out of your salesperson, and your hedge fund marketing, you, the portfolio manager or money management firm owner, need to understand who your most likely potential prospects are, acknowledge that there is a selling cycle through which your firm must do its marketing, and provide the tools your salesperson needs to communicate your story in marketing your product.

Know Who to Pursue

You want your salesperson to build and manage an appropriate list of contacts of prospective investors and investment consultants, but which are most appropriate for your firm today?

You need to understand and accept the current natural target markets to which you can market your strategy. If your size is too small and track record too short, then telling your salesperson to focus only on landing large institutional investors would be a disconnect from the reality of who is most likely to buy into what you're selling.

Friends and family, family offices, independent RIA wealth management firms, fund of funds, endowments, foundations and then institutional plan sponsors tend to be the order of pursuit for a money management firm as it grows in size and track record. The shorter the track record and smaller the AUM, the more the firm needs to market itself to the types of prospective investors identified first in that list. The exception to that rule for a smaller hedge fund is when it reaches the minimum size and age requirements that could meet a particular plan sponsor's emerging manager funds quota allocation.

Know When to Pursue

If you don't know what particular investors' needs are at present, then you do not know whether your strategy is a potential fit, or how to more productively expend your sales marketing efforts. You need to identify where you may provide a solution and where you cannot. Once your salesperson gathers this information, you can together determine who are your near-term prospects and who are the investors you need to move to the "re-contact down the road" list. This impacts how valuable sales marketing time is spent. It will also help determine the relationship-building goals you set for specific near- and longer-term prospects you aim to pursue.

Accept There is a Selling Cycle

A selling cycle typically runs from two months to two years, so you need to prepare your hedge fund marketing for a marathon, not a sprint. If you are lucky, and in the right place at the right time with the right prospect who is set to make a purchase decision now, it could take as little as two months. However, many sophisticated institutional investors run an extended due diligence process where they will not only evaluate you, but insist on spending time tracking your live performance once you've made it on to their short list of funds worth monitoring. It could take you two years to convert that prospect into an investor.

I've found that the hedge fund firms with high turnover of sales staff tend to be those with impatient portfolio managers prodding their sales people to speed up asset gathering, as if the selection of strategies and managers by investors is an impulse purchase.

Equip Them With the Needed Marketing Ammo

Contrary to what some first-time hedge fund business owners might think when hiring a salesperson, marketing personnel are not mind readers. They can repeat whatever story you tell them when representing your fund and its strategy, but they cannot invent detail you didn't provide to them in the first place.

What is the short list of marketing ammo that will make sales people more effective in their marketing efforts, and less likely to be contradicted by the portfolio manager when he or she is brought into a later-stage sales meeting with a prospect? I can summarize that for you in one sentence: It is what to say, how to say it, how to deliver it in verbal and written form in sales marketing contacts with prospects, and then third-party endorsement of management's intellectual acumen of management that is being marketed.

However, there is an unanswered question lurking in the shadows of that list – the required, detailed, beyond-the-numbers explanation about the investment beliefs and process of the manager that explains how the portfolio is run.

Institutional investors and their investment consultants demand greater detail about how portfolio managers think and how they construct and manage their portfolios than many hedge fund firm owners realize. A few bullet points in a flip chart are not nearly sufficient for communicating an institutional-caliber explanation about a hedge fund's investment beliefs and the process behind its strategy. In fact, a flip chart pitchbook is the wrong tool for this communications job because, as is obvious to all sophisticated investors, the content detail they seek goes far beyond what a few bullet point phrases can say.

Is your firm communicating a detailed, institutional-caliber explanation about your investment beliefs and the process behind your strategy?

A separate marketing tool is required to deliver this vital storyline content in sentence and paragraph form. It should include how the hedge fund manager assembles and manages his or her basket of holdings. This content is far more suited to brochure-format marketing collateral than to a simple bullet-point flip chart. It becomes the additional leave-behind selling tool that restates in print what the salesperson explained verbally in the initial sales meeting with a prospect.

Keep in mind your salesperson has a communications marketing risk management challenge. One of the important selling missions of your firm is to reduce the odds that a prospect will mess up retelling the beyond-the-numbers part of your firm's story to others on the investment committee. Equipping your salespeople to deliver the written storyline explaining your fund's investment beliefs and investment process will increase your control over how prospective investors remember and retell your story to the other decision makers on their investment committee.

Delivering vs. Creating Your Sales Marketing Storyline

Develop a list of prospective investors to contact, interest and present to; and then follow up with them on a regular basis with new content that supports the original presentation you made elaborating on details about how our fund assembles and manages its basket of holdings, and what differentiates us from competitors.

This is part of a hedge fund salesperson's job description, and hedge fund firm owners have a respectable chance of filling it. But a prospective employee's resume listing previous jobs as the salesperson for one or two funds, and possibly having helped create a flip chart pitchbook based on performance data and a handful of bullet-point phrases, is not the depth of experience and skill set needed to craft a hedge fund's sales marketing storyline capable of delivering the beyond-the-numbers, buyer-focused content required to meet the due diligence needs of, and attract sticky assets from, institutional investors.

Also, recognize that office politics make it difficult for the in-house salesperson not to be a "yes man". For this employee, telling the boss that he or she is not providing sufficient detail, or not explaining how the portfolio's basket of holdings is assembled and managed clearly enough to satisfy a due diligence process, is often seen as a job risk. As a result, most salespeople feel it is safer to remain mum.

It is, therefore, little wonder that investors have complained for years that most money management firms come across as me-too commodities rather than differentiated brands, delivering marketing presentations to them that come across as cookie-cutter copies of what everyone else beforehand has already pitched.

Increasing Sales Marketing Effectiveness

To get the most out of a hedge fund salesperson, the to-do checklist for the portfolio manager or hedge fund firm owner is clear. Deliver acceptable performance. Instruct your sales people to concentrate on the appropriate target investors that match up with the current characteristics of your strategy as well as the fund's performance, size and age. Provide the needed communications and sales marketing content and tools they'll need to present a compelling explanation about how you invest, and how your investment process differentiates you from the competition. Take these steps, and your firm will increase the effectiveness of its asset raising.

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About the author

Bruce Frumerman is founder and CEO of Frumerman & Nemeth Inc., a financial communications and sales marketing consultancy that helps financial services firms create brand identities for their organizations and develop and implement effective new marketing strategies and programs. Founded in 1987 pre-crash, Frumerman & Nemeth's work has helped money management clients attract over \$7 billion in new assets, yet they are not third-party marketers.

Frumerman & Nemeth was named Hedge Fund Branding Specialist of the Year - USA by Wealth & Finance International for its 2015 Alternative Investment Awards, named Best Hedge Fund Marketing Firm - New York by Acquisition International for its 2015 Hedge Fund Awards, and was recipient of the 2015 Innovation & Excellence in Financial Services Communications - USA award for the Corporate LiveWire Innovation & Excellence Awards.

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