

## Hedge Fund Marketing — Tips For Your Initial Sales Meeting

by Bruce Frummerman, Frummerman & Nemeth Inc.

There are two main goals your hedge fund should set for its first in-person sales meeting with prospects. The first is to learn more from the family office, endowment, foundation, fund of funds, independent RIA wealth management firm or institutional plan sponsor about their portfolios, and their investment plans and needs. The second is to effectively tell your hedge fund's story and the role it could play within the prospective investor's total portfolio, provided there is a fit.

Is your hedge fund fully prepared to thoughtfully use the time allotted in its first in-person meeting with a prospect?

Here is a reminder checklist of content that needs to be delivered and explained to investors to further your firm within their due diligence process as they evaluate whether to allocate to you or a competitor.

In telling your firm's story, there are four key topic areas that the hedge fund portfolio manager or sales person should be covering at that first meeting: the fund's numbers, the back office, the front office, and of course, the strategy.

Naturally, prior to being granted that first in-person meeting, the hedge fund needed to make it through a prospect's initial vetting, determining whether it is worth the prospect's time to take the meeting. A fund's performance tear sheet or flipchart pitchbook are the documents investors most often receive from those seeking an audience with them. Fund data, staff bios and the firm's list of service providers have already been fully read, or skimmed. So, it is rarely a 'blank slate' when the hedge fund firm first sits down with a prospect.

### **About the numbers**

Numbers, with performance that some prospective investors will consider to be within the ballpark of acceptance for them, are a good part of what gets the hedge fund that first meeting. However, good numbers alone do not win over sophisticated investors. (In fact, there are years' worth of investor surveys where investors have reiterated this very point.) Not only do historical performance, the strategy's risk/return characteristics and performance attribution data need to be provided, the hedge fund firm must be able to clearly explain in some detail at an initial meeting with a prospect how its strategy was run to deliver those numbers. More on this strategy-related point later.

## **About the back office**

Communications about back office — operations and administration, compliance, reconciliation and reporting — need to show that qualified people and transparent systems management procedures are in place. This is not firm differentiator information. Back office functions and its management are recognized as a required cost of doing business and must be shown to be conducted in an institutionally acceptable manner. Investors look to avoid allocating to money management firms run by people who may be good portfolio managers, but reveal themselves to be less than fully competent as business managers and owners. So, communicating how the back office is structured, run and supervised keeps a hedge fund in the running for a potential allocation.

## **About the front office**

For the emerging manager firms — those with under \$1 billion AUM — prospective investors are very interested in learning what the executive team's business and marketing plans are to grow the firm. No one wants to end up as the only investor with a manager. Business-related risk decreases as emerging manager firms grow to be capable of generating the management fee levels needed to cover operating overhead and a fair profit. So, emerging manager firm owners and their sales people need to be prepared to address this subject in a thoughtful way. What actions is the firm taking to attract and retain investors to move the business size-wise from emerging to established status? How does the firm plan to reinvest new revenues into the business to grow it? Prospective investors will be interested in the answers.

## **About the strategy**

The hedge fund's strategy and its implementation are the biggest differentiators that separate it from its competitors. Investors expect at the first in-person meeting to begin learning in detail about the investment beliefs and process used to run the portfolio. Regrettably, at the first sales meeting, when it comes to explaining and leaving behind hard copy of this vital information — which is the very thing investors pay fees for — too many hedge fund firms under-deliver. This is unfortunate because it is the presentation of this very content — how the portfolio manager assembles and manages the basket of holdings — that sophisticated investors look to glean from an in-person meeting with a hedge fund that they are evaluating for possible investment.

## **Strategy communication tips**

Prospective investors will begin forming opinions about the thinking behind a portfolio manager's investment process based on what they are told, or not told, at that initial in-person meeting. So, your firm needs to have constructed a detailed storyline to walk a prospect through your firm's investment beliefs, and the investment methodology created to profit from those beliefs, in the sector in which it invests. Additionally, your firm should point out how risk management was taken into account throughout the research and analysis steps of its investment process, even before a holding is added onto the portfolio.

Further, since no strategy can be an 'all weather' top performer, your prospective investor is going to be interested to learn what, if any, tactical allocation or hedging steps are built into the methodology that the fund might implement in different market environments. All of this

storyline content needs to be set in stone so that your firm's staff can tell that story the same way twice, both orally and in print. Should you later contradict what you told prospects in the initial in-person presentation, they will red flag your contradictory remark and become skeptical as to whether you actually have a strategy you can run with consistency.

Delivering such information requires content in sentences and paragraphs, not bullet-point phrases. So, at that first in-person meeting, it is in sentences and paragraphs that the portfolio manager or sales person will be verbally communicating this information to the prospect. But how is this content being left behind, in writing, for the prospect to return to later and to share with others on their investment committee? The flipchart pitchbook is the wrong marketing tool for this job. The content you want your prospects to understand in full should be presented in brochure format. This marketing collateral piece is separate from, and used in addition to, a bullet point flip chart.

A fully developed, detailed storyline, presented verbally and in print, that can educate and persuade people to understand and buy into how the fund invests can become a hedge fund firm's secret weapon in helping separate itself from the competition, win further meetings with prospects and win the vote of investment committee members once the fund makes it to semi-finals or finals consideration.

# # #

© Frumerman & Nemeth Inc. 2016

### **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 the Most Outstanding Communications & Sales Marketing Consultancy - USA award winner for *Corporate LiveWire's* 2016 Global Fund Awards and Most Outstanding In Financial Services Communications for *Corporate LiveWire's* 2016 Innovation & Excellence Awards. Mr. Frumerman can be reached at [info@frumerman.com](mailto:info@frumerman.com), or by visiting [www.frumerman.com](http://www.frumerman.com).