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Investors Reveal Where Hedge Fund Marketers Are Underperforming

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Time and again, investors reveal how your hedge fund can out-market its competitors. This is vitally important information, particularly for emerging managers. Has your hedge fund been listening and have you taken action?

What the surveys said

In January 2010 Prequin released its annual *Global Hedge Fund Investor Review*. In that study institutional investors were asked to name and rank their key considerations when choosing a hedge fund manager. The #1 response given was “Understandable / Transparent strategy”.

Also in January, SEI released its new report, *The Era of the Investor: New Rules of Institutional Hedge Fund Investing*. Institutions were asked to name the most important challenge they faced in hedge fund investing. The top response was “Transparency”. “Educating the board” came in second. “Performance” came in third.

Over 70% of the investors SEI surveyed reported requesting more detailed information from managers than they did a year earlier. As SEI observed, “investors are intent on understanding a firm’s culture, investment strategies and operations. To remain competitive, fund managers will need to be proactive in enhancing their transparency and investor communications and reporting.” What did investors declare as their top-ranked selection criteria? “People, investment philosophy, and the process for generating alpha.”

The SEI survey also documented something that my communications and sales marketing consulting firm has seen over the past year: the term transparency has taken on a wider connotation. SEI learned that survey participants were expressing concern with transparency as it applies to investment process, as well as portfolio holdings, third-party administration and custody. “Investors want sufficient communication and reporting to assure them that hedge funds are generating alpha from a consistent approach that is in line with the fund’s stated strategy,” the report observed. SEI went on to note that investor reporting and communication have emerged as key aspects of manager quality and differentiation.

What this tells us

In this post-crash, post-Madoff world having institutional quality operations management at a hedge fund, with third-party administrators, custodians, et al, is no longer a fund differentiator; it’s just part of doing business. Although performance still matters, it has become tertiary to the key differentiator and value-add: a hedge fund’s investment process.

Further, institutional contacts that hedge funds market to recognize that it is not enough for them to think a fund and its manager are acceptable. They know they need to be able to communicate to their own constituents — investment committee members, other members of the family office, the clients whose money wealth managers may want to allocate to the hedge fund — just why they are recommending investing with one manager and not another with similar performance.

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But there is a problem. Understanding and buying into the investment process of a hedge fund —a key element of the subjective part of institutions’ due diligence vetting — is reliant upon how cogent, compelling and clear the hedge fund is in telling its story. As these survey results show, when it comes to their marketing this is a key area where hedge funds have been underperforming.

How to use this marketing intelligence

Incorporate these revelations into your communications and selling.

Most hedge funds are communicating *too little* about how they manage their portfolios. So, begin by reevaluating and elaborating on the storyline you have been using to educate and persuade people to understand and buy into the process you follow in managing your hedge fund. Odds are you need to be telling more and communicating it in a more linear storyline.

Three pages of bullet points within a twenty five page flip chart presentation don’t cut it. For that matter, neither does just having a pitch book/flip chart as your sole or primary leave-behind marketing collateral. And since institutional investors have made clear that they need to *re-tell* a hedge fund’s investing process story to their constituents it is imperative that you make their job as easy as possible by providing marketing collateral that includes a full written explanation of the process you follow in managing your portfolio. (Your similarly performing competitors who ignore this communications marketing step will do so at their peril because you with your buyer-focused communications will be perceived to be the more defensible decision over them.)

So, construct a buyer-focused storyline that can both pass muster with an interested, sophisticated and skeptical prospect and be clear enough for teaching and selling less sophisticated investment committee members on your fund and its investment process. Apply that story content to your marketing materials, your verbal pitch presentations, your DDQs, RFPs and letters to investors.

With your new, elaborated storyline in hand rehearse the people who will be telling it in person — your portfolio manager, sales person and third-party marketer — so they can do so smoothly and without fear of contradicting each other from one prospect meeting to the next.

Fill the information gap. Tell institutional investors what they want to hear. What a great opportunity to sell yourself and differentiate your firm from the competition.

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Bruce Frumerman is president of Frumerman & Nemeth Inc., a 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. His firm’s work has helped money management clients attract over \$7 billion in new assets, yet Frumerman & Nemeth is not a third party marketing firm. He has 30 years of experience in helping money managers to develop buyer-focused positioning strategies to differentiate them from their competitors; create more cogent and compelling sales presentations and marketing materials to better tell their story; and use media relations marketing to help establish a branded identity for their organization by generating third-party endorsement for the expertise of their people, the value of their services and the quality of their products. He has authored many articles on the topic of marketing money management services and is a frequent speaker on the subject at conferences for hedge fund managers, institutional, mutual fund and Separately Managed Accounts money managers and Third-Party Marketers. He can be reached at info@frumerman.com, or by visiting www.frumerman.com.