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What Can Your Hedge Fund Do For Me?

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If your money management firm's marketing efforts have not met your expectations there is a question your executive team should ask itself: *Is our communications and sales marketing to attract new investors and grow assets too seller-focused?*

Your hedge fund can improve its odds of success in attracting sticky assets if it becomes more buyer-focused and addresses its sales marketing through the due diligence process by taking into account the perspective of sophisticated investors — family offices, endowments and foundations, institutional plan sponsors, the investment consultant gatekeepers serving these investors, and also independent, fee-only RIA firms.

As such investors have shared with me over the decades, the majority of money management firms pitching them come across as seller-focused vendors hawking their wares without demonstrating they have a buyer-focused thought or care for what prospective investors might be looking to accomplish with the next new addition or change to their portfolios.

The introductory sales marketing communications coming from too many hedge fund firms to prospective investors — from the verbal pitches to the flipchart pitchbooks — has often simply been *This is the category of my strategy, this is my performance, will you invest?* And all too often this is both the start and end of the key points made in a money management firm's communications.

Yes, performance is important, but many years of investor survey results of family offices and plan sponsors repeats time and again that this is not the primary consideration. In fact, post-2008, it hasn't even been the second most important consideration. Most survey results show investment process is most important, followed by risk management protocol, and then performance.

That said, full detail about investment process and risk management protocol do not belong in the initial written content sent to a prospective investor when the money management firm is seeking an initial meeting. The secret behind how to best communicate this vital information, upon which the brand identity of a money management firm is shaped, is a topic for another day. This only comes up after a prospective investor has had the *What can your hedge fund do for me?* question answered for them.

Performance, but at what cost?

The relevant, at-a-glance information sophisticated investors first seek when being introduced to a hedge fund is about the type of strategy and performance. Gross and net performance numbers are not enough here. Sophisticated investors also require, right up front, a sense of what the risk/return and correlation characteristics are in the fund manager's strategy. They understand that similar total returns are not all equal. A 15% return with, say, a 13.5% vol is certainly not the same as a 15% return with a 25% vol. The money management firm should include in its performance tear sheet marketing collateral document the relevant risk/return information for its product so prospective investors know from the start what performance is being delivered at what cost.

In what context should I view you?

This information is missing from too many hedge fund firms' initial contacts with prospects; be it the serendipitous first meeting by the coffee urn at an industry conference, the round one marketing materials given to qualified prospects, or during the first in-person sales meeting with potential investors.

Provide this buyer-focused information — in print and not just verbally — and you will have answered the question *What can your hedge fund do for me?* Prospective investors want to understand what role or roles your product — be it an LP, managed account, 40 Act fund, or mutual fund — could or should play within their total portfolios. This, in turn, sets the stage for the conversations the money management firm will have with a prospective investor throughout the selling cycle.

Asset allocation decisions differ among sophisticated investors as each may have a different investment objective, time horizon and risk tolerance. So, what constitutes acceptable risk/return exposure or downside risk protection for one family office or plan sponsor may differ from the other, and from what your portfolio is seeking to deliver.

Are you a core equity or fixed income holding? Do you offer the potential of alpha plus diversification from core holdings? Do you offer the potential to lower volatility on an investor's total portfolio? Delivering above market return at below market risk may be an investor's ideal, but it may not be what your strategy is about. If you are running a high risk/high return type of strategy, for example, then call it as it is. (Noteworthy Tip: Frumerman & Nemeth has found this to be one of the many useful information points that can help early on separate investor suspects from prospects for a money management firm during its new business development efforts.)

Remember, the majority of hedge funds that go out of business do not shut their doors because some trade blew them up; it's because they were unable to get enough investors to understand and buy into their investment process. If your firm wants the selling cycle with prospective sophisticated investors to progress to the stage where you have the opportunity to educate and persuade them about how you invest, then make sure you first successfully answer their question, *What Can Your Hedge Fund Do For Me?*

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About the author

Bruce Frumerman is founder and CEO of Frumerman & Nemeth Inc., a 30-year-old 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. Frumerman & Nemeth's work has helped money management firm clients attract over $7 billion in new assets, yet they are *not* third-party marketers. The firm achieves this by helping clients create the ammunition they need to do a better job than their competitors in educating and persuading people to understand and buy into the beyond the numbers story of *how* they invest. This is the very content investment committees actually discuss behind closed doors and vote on when considering firms on a short list for potential investment. Mr. Frumerman can be reached at info@frumerman.com, or by visiting www.frumerman.com.