



Marketing Job #1 For Hedge Fund Managers

6 Ways Hedge Funds Need To Adapt Now.



Bruce Frumerman
Founder and CEO

“Articulating a fund’s investment process and what makes the results repeatable is job one for fund managers,” says SEI in *6 Ways Hedge Funds Need To Adapt Now*, its sixth annual global survey of institutional hedge fund investors. This report, which also includes insights from roundtables with industry experts, addresses what it takes to succeed in the hedge fund business today.

SEI notes that seven out of ten institutional investors responding to its survey complained that “there are too many look-alike strategies in the hedge fund industry today.” Investors are not just looking for absolute returns, but for “differentiated alpha sources” that can produce non-correlated returns.

So, SEI tells hedge fund firm owners, they need to communicate a story that is simultaneously concise, compelling and detailed in order to define who they are to prospects and those who influence them.

According to Hedge Fund Research (HFR) there are around 7,940 hedge funds and 1,870 funds of hedge funds today. While an average of over 840 funds have closed their doors each year since 2005, based on HFR database information, over 1,000 launched in 2011 and around the same number in 2012. So it is no wonder that the key challenges hedge fund firm owners face today to out-market competitors include the need to be able to demonstrate a sustainable edge and a clear value added, and to have business and marketing acumen.

It is not enough for hedge funds to distinguish themselves in terms of their pedigree, talent, strategies, and performance, SEI observes. They need to “clearly articulate their investment process, and explain what makes their results repeatable (not to mention worth the fees they are asking).”

The hedge fund firms that have no clear idea of how to get their message across are bound to fail to attract assets. Such firms “just use the same mumbled jargon and rarely convey what is actually happening,” one industry expert observed in the SEI report. Marketers that do not put their investment process story in writing and convince others that their process makes sense will not grow assets, the panelist went on to comment.



What was mentioned as being the single greatest communications feat for hedge funds? “Explaining simply just what it is you do.” SEI found those it surveyed emphasizing how important it is for hedge fund firm owners to spend the time and resources needed to make complex processes clear and simple.

In today’s competitive environment investors are conducting more in depth due diligence into a hedge fund’s strategy and taking into account the personality of the manager responsible for executing it. Effective marketing is required if a hedge fund is to make itself easily understood and create recognition for what separates the firm from its competitors.

Many of the top investors on Wall Street attribute their asset and client growth not to their investment results, but to effective marketing, SEI reports. The idea that “perception is reality” is never more relevant than in the hedge fund industry, they say. Yet, while the importance of differentiating is easy to understand, it’s increasingly hard to do, the study admits.

One of SEI’s concluding takeaways for hedge fund firm owners is that “To increase their chances of success, firms should consider outsourcing anything that isn’t core or they can’t do well themselves, as long as it doesn’t undercut their own value-added.”

What you have to say is How

The marketplace agrees that what will differentiate you from the competition is how well your hedge fund articulates how it invests and what makes performance results repeatable. Your story of How – your investment beliefs and the process you use to assemble and manage your basket of holdings – is the subjective part of what you have to get people to understand and buy into.

You need to be able to communicate this effectively both verbally and in writing. Importantly, you need to reduce the odds of having a prospect mess up retelling your hedge fund’s story to an investment committee colleague or a client on whose behalf he makes investment allocation recommendations.

All hedge fund firm owners know that prospects rarely become investors after just one meeting. The due diligence process of prospective investors and their advisors can take months. Yet few hedge funds seem to take into account that a significant time lapse can occur between when they first sit down with one of the decision makers, or gatekeepers, and when she gets around to preparing to discuss that fund with others on the investment committee. Not only is your hedge fund required to tell an effective story, it is equally important to have that content stay once you have left.

Hedge fund managers need to remember that an investment committee that is considering a handful of finalists is not debating which has the better Sortino Ratio or R-squared, they’re discussing which fund has the clearest investment process and value proposition that they can understand, buy into and be able to discuss, if need be, with the constituents they invest for and report to.

Has your hedge fund put the full detail of its investment process story in print? Verbal elaboration given at an initial sales meeting to explain what your flip chart bullet points were meant to convey is not going to be remembered four or fourteen months down the road when a family office, institutional investor or wealth management firm may be getting around

to discussing your fund and a few others with similar performance and risk characteristics. The hedge funds with only a flip chart marketing tool in their toolkit often find themselves coming across as a commodity-like investment choice rather than a differentiated hedge fund with a value-added portfolio management approach.

Hedge fund marketing materials should make it easy for investors to conduct their due diligence. Are yours? My firm has found that while the pitchbook is the right tool for showing data (charts, graphs and numbers) it is the wrong marketing tool for delivering a compelling and detailed explanation of investment process, which is text based content. An additional marketing collateral sales tool is required. That is why my firm has been helping hedge funds create just such differentiating communications marketing documents for over two decades. We put the vital text based content detail about investment beliefs and process in a brochure format marketing piece.

Use the insights from SEI’s 2013 global survey of institutional hedge fund investors to guide your hedge fund firm’s plan of action for improving your marketing competitiveness in 2013. The hedge funds that successfully out-market competitors with similar performance will be the ones that spent the time and effort to put the full detail of explanation of their investment beliefs and investment process story into print, and then actively communicate that content throughout the selling cycle. *

Bruce Frumerman is founder and CEO of Frumerman & Nemeth Inc. (www.frumerman.com), 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. The firm was named 2013 U.S. Marketing Firm Of The Year For Hedge Funds by Acquisition International Magazine’s International Hedge Fund Awards. 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. Bruce has over 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 and industry conference speaking opportunities 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 hedge funds and is a frequent speaker on the subject at industry conferences. He can be reached at info@frumerman.com, or by visiting www.frumerman.com.