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Hedge Fund Marketing Implications From New Survey Findings On Investment Beliefs

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The recently published Pensions & Investments/Oxford University survey on long-term investment beliefs has implications for how hedge fund firms market their strategies and get buy-in from institutional investors.

Relevant findings for hedge fund firm owners

In offering conclusions from their survey results Gordon L. Clark, professor at Oxford University's Centre for the Environment, who led the survey, offered the key observation that managers will increasingly be differentiated by "their strong belief systems and a rigorous investment process that matches those beliefs." P&I reported that he went on to comment that "It's terribly important for managers" to base investment decisions on a clear set of investment beliefs. "The whole logic of their business is premised on being able to articulate beliefs, testing beliefs and being able to revise beliefs in a very uncertain world."

P&I also reported the comments of Rob Bauer, professor of finance and chair of the institutional investments division at Maastricht University, that more investment managers "now focus on the structure of their investment beliefs, how the beliefs translate into the design of the investment framework and how that framework is executed. The more sophisticated investment managers are really trying to have a coherent structure."

What it means for hedge fund marketing

Marketing hedge funds has become more competitive.

Successful capital raising has always required having more than just performance that is within the ballpark of acceptance. Having institutional caliber operations and administration went from being a marketing differentiator to simply an expected cost of doing business. Along the way, from pre-crash to post-crash, the term transparency, and the call for it, changed in meaning. What began as calls for data — reveal the portfolio holdings and provide third-party reporting — morphed into a call for providing more explanation about the investment process and decision-making behind a firm's strategy.

Institutional investors and their investment consultants have become more demanding for greater information detail about how hedge fund managers think and how they construct and manage their portfolios.

Is your firm communicating an institutional caliber explanation about its investment beliefs and the process behind its strategy? A few bullet points in a flip chart are not sufficient for accomplishing this. You cannot just claim you have a rigorous investment process and leave it at that. You have to prove it with a detailed explanation of this important subjective information that your hedge fund has to persuade people to understand and buy into: how it invests.

Reexamine your own communications. Are you truly differentiating your firm from the competition or are your marketing collateral, in-person presentations and responses to essay questions in RFPs and DDQs actually having you come across as a me-too copycat strategy-wise, offering no perceivable added value?

Have you given prospective investors easy access to a full, written explanation about your firm's investment beliefs and investment process? Your hedge fund has a communications marketing risk management challenge. One of the important selling missions you have is to reduce the odds that a prospect will mess up retelling the subjective-based part of your firm's story to others on the investment committee. Supplying them with the written long version story of investment beliefs and investment process will increase your control in how your prospect remembers and retells your story to other decision makers.

A flip chart pitchbook is not the right tool for this communications job. An additional marketing document that delivers this vital story in sentence and paragraph form about how your firm thinks is required. Such content is more suited to brochure format marketing collateral than to bullet point flip charts. If such a marketing tool is not already in your selling arsenal for making selecting your offering a more defensible decision in the minds of your prospects, creating this type of document should be at the top of your communications marketing To Do list.

The job of crafting the story of a hedge fund's investment belief system and its investment process isn't an assignment a portfolio manager can pass off to others to create with little or no participation from him. Too often, important parts of a hedge fund's investment process story have never been fully communicated to people outside the firm. Also, many hedge fund firms find themselves unable to tell their investment beliefs and process story the same way twice. So, the portfolio manager's participation with his communications marketing experts in locking down his firm's storyline is vital.

Differentiate your hedge fund based on your investment beliefs and a demonstrable, rigorous investment process that matches those beliefs and you will improve your firm's ability to out-market competitors and convert prospects to clients.

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