FINalternatives
HEDGE FUND & PRIVATE EQUITY NEWS

September 6, 2011 www.finalternatives.com/node/17960

Hedge Fund Experts: Communication Is 'Vital' To Attract, Keep Investors

Being invested in a hedge fund with a manager who doesn't communicate is like "riding in an airplane and hearing a really loud 'bang' and hearing nothing from the pilot," says Don Steinbrugge, managing partner of hedge fund consulting firm Agecroft Partners. "If the pilot says, 'It was just static electricity, it happens all the time,' you don't have an issue."

Today, with U.S. unemployment at 9%, GDP below 1% for the past six months, the Eurozone teetering on the edge and government stimulus packages coming to an end, the economy is throwing up some pretty heavy turbulence and the key for hedge fund managers, established or emerging, seems to be 'communicate.'

"In a market where you have significant volatility [and] a major correction in the equities markets, it is very important for managers to be communicating with their clients," says Steinbrugge. "Managers need to, first of all, make sure that their investors have the right expectations…given a particular market environment. Because when there is a divergence between performance and expectations, there will be a significant increase in redemptions. If managers do what investors expect them to do, given various movements in the market, then they tend to be much more long-term oriented investors."

Communication is vital for fund managers, says Eric Munson, managing director of hedge fund seeding firm Stride Capital.

"Given the restrictions on publicity and advertising, hedge funds are challenged with communicating their approach and results in a cost-effective fashion, yet [they must] keep within the limitations of the laws," Munson says. "You can't just take out a front-page advertisement in the Wall Street Journal. You've got to be able to speak to clients and consultants and other allocators in a thoughtful, measured way within the private realm of the fund world."

All the experts FINalternatives polled agreed that managers need to tell investors what differentiates them from the competition, and do so in a concise, cogent and linear way.

"I think a lot of managers fall victim to making it too complicated," says Munson. "If you're able to really distill your investment thesis into some very basic, thoughtful, insightful comments, you can differentiate yourself that way…The best letters coming from the top managers do an excellent job of distilling down their thinking into a very short, concise, Hemingway-esque format, where every word counts."

Bruce Frumerman, CEO of marketing firm Frumerman & Nemeth, concurs that post-crash, "prospective investors and their consultants all feel the need to get more information out of money management firms about how they invest. Investors are increasingly focusing on the managers whose strategies and risks they can understand."

Frumerman adds: "Understanding and buying into the investment process of a fund—a key element of institutions' due diligence vetting—is reliant upon how cogent, compelling and clear the hedge fund is in telling its story. As investor survey results from SEI, Preqin, Morningstar and Boston Consulting Group have shown, when it comes to their marketing, this is a key area where funds have been underperforming."

- more -

Managers who can explain their strategies are also more likely to find investors who share their "philosophical bent or orientation," says Munson, "so that they understand the strategy well enough to get away from the short-term performance issues. The key, really, is to align your interests with investors who understand the fundamentals of your investment approach and your thesis. If you're a distressed manager and you're buying distressed debt you need to find investors who get that and who understand that and are interested in that. If you're a growth manager, you need to find investors who love growth and get the fact that growth sometimes isn't in favor…"

Talk, rather than being cheap, can actually be a valuable asset in building a relationship with a potential investor, according to Lisa Vioni, CEO of capital raising platform Hedge Connection. But she says hedge fund managers, who often begin their careers as traders, don't always recognize the importance of building relationships:

"A lot of them think, 'Well, if I make these returns, an investor is just going to want to invest with me so therefore, why do I need to bother building a relationship with that investor?' Which is just not true, I don't think it was ever true. Investing in a private placement is all about building a relationship with the manager because, from the investor's point of view, there [are] a lot of risks…So, the investor's going to be concerned with getting to know that manager at a lot of different levels."

Vioni says hedge fund managers have a tendency to cut to the chase with potential clients—"Here's my strategy, when are you going to make an investment?"—when a better approach might be to say, "Hi, I'm just checking in with you, I wanted to give you a little summary of some of the interesting things that are going on in my sector right now: Here's where we were, here's where we're going." Take the time to educate your investor, she says, become his go-to person for your market, make him look smart to his boss and eventually he's going to say, 'You know what? I want to invest with you.'

In Vioni's opinion, the current market environment is "kind of the same as it's always was been in some ways…it's a long sales cycle, it's difficult, especially if you're an emerging manager—80% of hedge funds have under $100 million assets under management, so the majority of hedge funds out there have a difficult time getting the attention of investors."

Munson says managers looking to raise capital right now should bear in mind two things:

"It will take you longer and be much harder than you think," he says.

\# # #

***Don Steinbrugge**, **Lisa Vioni**, **Bruce Frumerman** and **Eric Munson** are all part of the distinguished lineup of speaker at the **FINforums Annual Hedge Fund Summit** on Sept. 14, 2011 in New York. They will be speaking on the 'Dos and Don'ts of Capital Raising.'*

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.