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So You Want To Market A 40 Act Fund:
market intel for the hedge fund firm owner

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The number of hedge fund firms contemplating adopting 40 Act fund structures in efforts to broaden their distribution channels and appeal to retail clients continues to grow. Of course, to add a 40 Act fund to grow assets a hedge fund firm needs to have a product that, among other things, is different enough in strategy or execution that it will not cannibalize sales of its hedge fund vehicle.

Regulatory requirements aside, there are two key differences between marketing a private placement hedge fund offering and a 40 Act fund: target audience and key touchpoints for communication. Instead of investment consultant gatekeepers who serve institutional, endowment and foundation, and family office investors, it's Registered Investment Advisors (RIAs) who serve the mass affluent and high net worth markets. Instead of first contact being a direct contact made by your money management firm, as it does in marketing its hedge fund to a specific investment consulting firm or institutional investor, the RIA investment advisor is more likely to first learn of your 40 Act fund product some way other than by direct contact made by your sales person.

While hedge fund firm owners may be experienced in marketing their alternative strategies to accredited investors few have experience or insights into what it will take to attract sticky assets with a 40 Act product. My recommendation: pay close attention to the world of traditional mutual fund sales to and through RIAs. The challenges there mirror those you will face marketing your 40 Act fund.

The good folks at Aberdeen Asset Management recently published results of its survey that asked the question when selecting mutual funds what ranks most important to RIAs? Polling more than 200 RIAs, here are highlights of what they were told.

Clarity regarding investment philosophy and strategy ranked most important (59% response). Historical returns ranked a distant second (19% response) and company brand name — thought by many hedge fund firm owners as being the primary thing they had to promote beyond their numbers — ranked a very distant fifth (3% response). The next point of interest is that two-thirds of surveyed advisors said investment products had become increasingly difficult for clients to understand.

These survey results show that a money management firm cannot simply tell its sales people to 'just sell them on our umbrella image' or 'just sell them on our numbers'. As more strategies, and more complex strategies, have come to market the importance of product-specific branding and communications in sales and marketing has grown significantly.

As Mickey Janvier, head of wealth management, Americas, for Aberdeen Asset Management, commented regarding the survey's findings, "Fund managers that can clearly and concisely articulate their investment philosophy and strategy are more likely to garner interest from advisors and attract assets. While this seems simple in theory, many fund managers continue to undervalue the importance of clear and concise communication with advisors about how portfolios are invested. These managers will have a difficult time remaining relevant in an environment where transparency is king."

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“Simple in theory” indeed. The request for a cogent and compelling storyline that communicates investment philosophy and strategy should come as no surprise. It is the same thing institutional hedge fund investors have been complaining about over the past six years, as a variety of industry surveys can attest. The problem, from the prospective investor’s perspective, is that data alone doesn’t explain the thinking that took place and the process the alternative strategies portfolio manager followed to assemble and manage his basket of holdings. This subjective, opinion-based information needs to be explained to the consultant/advisor gatekeepers. They have to understand and buy into it, and then they need to be able to effectively retell this information to their investor clients — much like with the children’s party game of Telephone — when justifying why, beyond the data, they recommend to make an allocation to your product rather than that of a competitor. True for a hedge fund. True for a 40 Act fund.

The final key point of interest for the hedge fund firm owner preparing to market his or her new 40 Act fund is this: according to the survey, the number one way that advisors stay up to date on new products being introduced by the asset management industry is through their own online research (60 percent). Only 15 percent of respondents said wholesalers were the primary way they learned of new products.

Translation: what you put in writing about your fund, your investment beliefs and your investment process — and how well you educate and persuade people to understand and buy into that opinion-based information — is key to your success in attracting sticky assets. Yes, you need to have acceptable performance and your product needs to be ‘on the shelf’ of one or more brokerage firm platform. But make no mistake, there is no automatic demand-pull interest for your 40 Act fund just because you have shelf space.

The online research RIAs do may lead them to your website, to that of your platform provider (they can’t invent the copy explanation about your fund, it’s your job to provide the right stuff), to a transcript of a speech you gave at a conference or to press coverage about your fund and its strategy. Planning for videos, too? That’s great, but you’re still going to need to craft content first, and the content about what may differentiate your 40 Act fund from the competition is likely to come down to the storyline you need to deliver to the marketplace about your investment philosophy and investment process.

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