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Hedge Fund Marketing And The Selling Cycle

by Bruce Frumerman

How long is the selling cycle *now*? That's a question my financial communications and sales marketing consulting firm has been asked on a regular basis by hedge fund firm owners and sales people, ever since we opened the doors to our firm in 1987 pre-crash.

Watching and waiting?

Since that time, we have observed that there are quite a number of hedge fund boutique firm owners and staffers who are under the impression that the selling cycle for their products on offer to institutional investors (family offices, endowments, foundations and institutional plan sponsors) can somehow dramatically shift from one year to the next or one time period to the next. If they assume such a thing can be so, and could even identify such dramatic shifts, what would they even do with that information? Decide to go market their funds only in months when it appeared that the selling cycle was significantly shorter, and otherwise just sit on their hands waiting for the selling cycle to shorten again? If, as you read those words, you found yourself thinking "*That doesn't make any sense*," you're right.

Every time a hedge fund asks me the question *How long is the selling cycle now?* it always makes me think of the jazz standard titled "How High the Moon", popularized by the guitarist Les Paul and singer Mary Ford. The average distance of the moon from earth is 238,855 miles. At its apogee the distance is 252,088 miles and at the perigee it is 225,623 miles. Nice to know, but not something that should influence how you run your business this month versus, say, next year. So, what about the selling cycle for hedge funds?

Time of the season?

The answer can be seen in decades of anecdotal evidence. Let me give you a sense of the breadth of market conditions through which my firm has observed this, and through which my firm helped clients market. Think back in 'market' time. Consider the time just before the 1987 crash, and then just a few months afterward. The near term aftermath of the yield curve inversion of 1994. The tech bubble of the late 1990s, and its popped end in 2000. The financial crisis and crash of 2008. Today's continued bull market, paired with the global market volatility that is plagued by ongoing, post-2008 macroeconomic factors that are above and beyond just the company-specific risk considerations of choosing to invest in one business, or asset class, versus another. It is through all of these different market environments that we have seen the answer to the question, and the answer has remained the same.

Answer to the question

OK, here is what we've found the answer to be, year in and year out. The selling cycle for a hedge fund typically runs from two months to two years. We have not seen any correlation to whatever is going on in the markets. If you're lucky, and in the right place at the right time with

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the right prospect who is set to make a purchase decision now, it could take as little as two months. If, however, you come across a prospective investor who runs an extended due diligence process — who will not only evaluate you but spend time tracking your live performance, once you've made it on to their short list of funds worth monitoring — it could take two years for that prospect to be converted to an investor.

If you are a start-up fund that asked a department head of a prime broker or fund admin firm how much operating capital you should have on hand to even consider launching your business, I'll bet the answer you were given was two years. Now you know why.

Applying this to your hedge fund selling effort

The adage 'it's not a sprint, it's a marathon' applies to hedge fund marketing and the selling cycle. Prudent hedge fund firm owners rightly assume that even when they have a positive first meeting with a prospective institutional investor they may need to put in two years of time and effort into further developing the relationship, providing over that time the performance and related data the prospect requires, and being prepared to answer the other key due diligence questions.

As emerging managers either already recognize before they set up shop, or else come to learn relatively soon, having competitive performance, institutionally acceptable ops and admin service providers supporting the management of their business, and a business plan for growth that they can explain to prospective investors is simply the cost of entry, nowadays, to get a hearing with most institutional investors. This alone will not get them through the selling cycle.

Eliminating obstacles that could lengthen your selling cycle

Once prospective investors decide that a hedge fund's performance and other data-based characteristics are within the ballpark of acceptance, their due diligence attention turns to the story *behind* the numbers: the hedge fund's investment beliefs and the process it follows to assemble and manage its basket of holdings. The hedge fund is required to effectively communicate to prospective investors a detailed explanation about this. That's what investment committees will be discussing about you when you make it to semifinals or finals consideration, not your numbers. This is part of the selling cycle end-game.

Yet, this has proved to be a significant obstacle for many hedge fund firms. Many of them convey too little information about the story behind the numbers in their in-person meetings with prospects and in their marketing collateral. This results in prospective investors having to decide between putting in their own time and effort to attempt to dig this required content out of the portfolio manager's head, or nixing the fund from further consideration because they, the buyers, are being made to do too much work and the hedge funds, the sellers, appears to be too opaque about what they did to generate returns.

So, to prepare your firm for successfully making it through the selling cycle, and out-marketing competitors delivering similar performance, take steps to build out the communications marketing points by which you can educate and persuade people to understand and buy into how you invest. For this, you need to create the storyline for explaining your investment beliefs and

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investment process. Then assemble the range of communications marketing selling tools needed to make it through the selling cycle. Marketing collateral requirements go beyond just having a flip chart pitchbook and a tearsheet, which are good for communicating data but poor for communicating the vital text based content about your investment beliefs and the needed story of how you assemble and manage your basket of holdings. At a minimum, you need to add a brochure format document to the arsenal of selling tools. It should serve as an evergreen collateral piece designed to retell in a non-bullet point, long-version storyline format what you explained verbally in sales meetings with prospects about the detail of how you run your investment process.

There are two benefits to adding such a piece to your marketing arsenal. First, it improves your control over how a prospective investor remembers your investment process, and shares and discusses it with colleagues when you are not present. Second, it makes the due diligence job of the prospective investor easier. This can encourage them to continue conducting their due diligence on your fund while dropping from consideration competitors of yours who have not communicated as clearly.

Make this vital content about how you invest easier for prospective investors to find, absorb and then discuss at the investment committee level and your hedge fund firm will have done its bit to both out-market competitors and make its selling cycle no longer than need be.

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About the author

Bruce Frumerman is founder and CEO of Frumerman & Nemeth Inc. (www.frumerman.com), a 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. 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.

This year, Frumerman & Nemeth was named Hedge Fund Branding Specialist of the Year - USA by *Wealth & Finance International* for its 2015 Alternative Investment Awards, named Best Hedge Fund Marketing Firm - New York by *Acquisition International* for its 2015 Hedge Fund Awards, and was recipient of the 2015 Innovation & Excellence in Financial Services Communications - USA award for the *Corporate LiveWire* Innovation & Excellence Awards. Last year, Frumerman & Nemeth was named the Top US Hedge Fund Marketing Firm of the Year for the second consecutive year by *Acquisition International* Magazine's International Hedge Fund Awards, named the Best North American Public Relations Firm by *Hedgeweek*'s 2014 USA awards, named Communications & Sales Marketing Consultancy Firm of the Year - USA for the M&A 2014 Awards by *Acquisition International*, named Overall Marketing Company of the Year - USA for the 2014 Business Excellence Awards by *Acquisition International*, and named Best Buyer-Focused Positioning Strategies Consulting Firm of The Year - USA for the 2014 Finance Awards by *Wealth & Finance International.*

Mr. Frumerman can be reached at info@frumerman.com, or by visiting www.frumerman.com.