



Frank Carr

Guest Columnist

When prime brokerages started their services in the 1950s with Neuberger & Beran handling trades for hedge fund pioneer Alfred W. Jones, managers had to bring their own investors to the table. Today, capital introduction—or cap into—has become a key component of most prime brokerages, but the reality is that raising assets is a tough job and managers need to keep their expectations in check.

“It is clearly a misconception that a hedge fund manager can rely solely on capital introduction to talk about their fund and raise capital,” says Marianna Bracco, director of investor relations at Marathon Asset Management.

That said, bulge bracket firms like Goldman Sachs and Morgan Stanley still have real muscle in gathering early stage assets, but they are geared toward working on high profile \$1 billion launches rather than helping smaller funds gain traction.

However, small funds do have options. Several independent prime brokers now cater to these emerging managers. One such group, VanthedgePoint Securities, offers its hedge fund clients a specialized capital introduction program that focuses on early stage investors including seeders, day one LP investors, and “follow through” or “accelerator” investors.

“The capital introduction process is a collab-

Capital Introduction Where are we now?

orative effort as it is critical for the managers to understand and target appropriate investors,” says Alexis Graham, managing director of VanthedgePoint. Graham suggests that raising capital in the early stage is a function of many factors including performance, pedigree, timing, clarity of message, and, perhaps most importantly, identifying the right investor or investor groups

“A capital introduction team is an excellent resource in understanding the current capital raising environment but at the end of the day it is up to the hedge fund manager to create the proper infrastructure to raise capital,” says Marathon’s Bracco,

prime broker the most business.”

Rob Davis, partner at Merlin Securities and a prime brokerage industry veteran, has a somewhat different take on bundling cap intro with prime brokerage services. “A dedicated sales professional is the way to go,” he says. In fact, Merlin does not offer cap intro itself, rather the firm maintains relationships with a group of third-party marketing firms to which it refers business.

With so many choices on the asset gathering menu, choosing which path to take can be daunting. “A manager should have a well-orchestrated plan and defined goals before starting their fund raising campaign,” says Steve Rubenstein, founder



who emphasizes the importance of controlling the sales message and suggests that a direct representative of the hedge fund manager be the ultimate conveyer of that message.

As an independent alternative to large capital introduction events, Jane Halsey, president of the Roundtable Forum, has created an environment in which investors can meet with multiple managers in small, informal groups. Halsey acknowledges that there are benefits of cap intro services, but adds that, “cap intro executives logically concentrate on managers that will give the

and president of Arrow Partners, a third-party marketing firm. He advises that a manager clearly delineate the responsibilities when using multiple sales and marketing partners, including one or more cap intro groups.

Clearly hedge fund managers should not rely on an automatic inflow of assets once they shake hands with a prime brokerage’s cap intro team. Managers must continue to have a hand in wrestling their own assets to the ground. Still, cap intro teams can be a valuable tool to help point hedge fund managers in the right direction.

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