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Raising the game

As more hedge fund managers enter the industry, many believe raising assets is becoming harder. Anna Richardson explores different ways to attract money

Many believe raising assets has become more difficult for hedge funds over the past few years. As more hedge funds enter the market, managers find it harder to differentiate themselves within a particular strategy.

And although there has been a vast amount of money flowing into the industry, ticking all the right investor boxes can be challenging. Investors' decisions to allocate can also take longer than managers anticipate, with the process taking over a year.

Who to turn to?

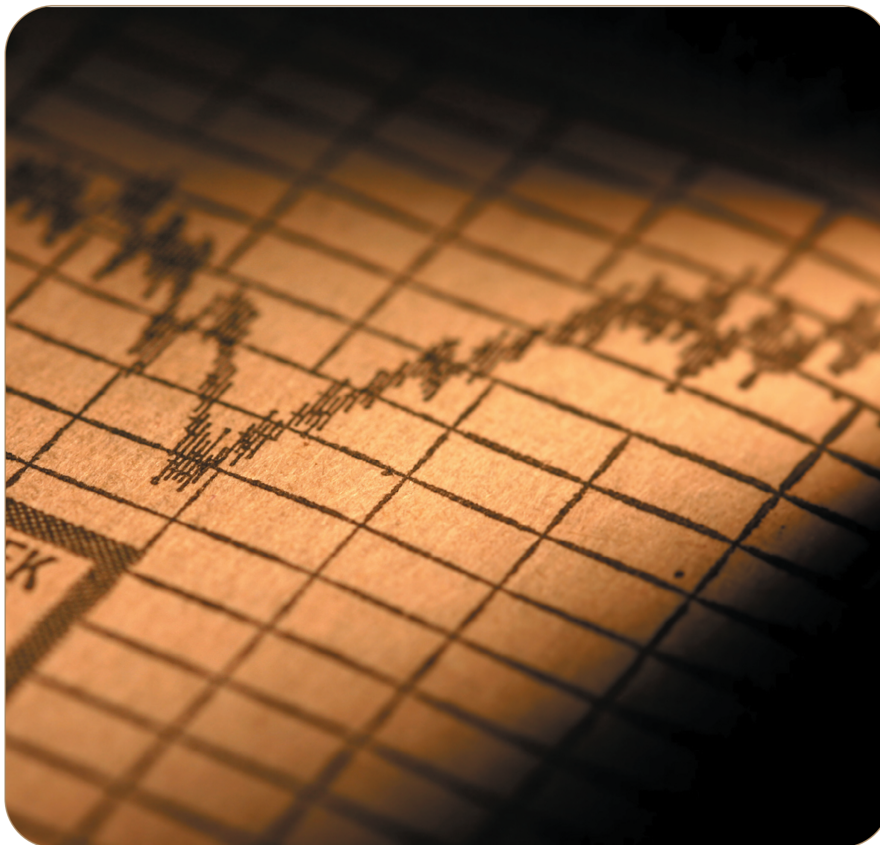
Start-up hedge funds in particular need to be increasingly pro-active. However, there are several avenues to chase money – from the use of prime brokers' capital introduction departments, to third-party marketers, to taking the reins into their own hands – and choosing the right one can be tricky.

Tony Stocks, partner of Tennyson Capital, a third-party marketer, believes using a capital introduction department might not always be best.

He says: "A capital introduction department at a prime broker has a list of investors and they will spam them if a new manager comes along."

Stocks adds third-party marketers have a different approach. They will probably have all the same names but tend to have a more direct approach to the investor.

"We will call, we will set up meetings, we will be at the meetings, we'll do the follow-up and give feedback from those meetings," he explains.



"And we will probably limit the list to 50 investors that we know are interested in that space, in investing in a manager of that experience and track record."

Both the capital introduction companies and the third-party marketers typically take a percentage of the management fee for a period of time or even in perpetuity. This can make those options costly.

And institutional investors might not favour an approach by those introduction companies either, as Stocks admits.

"Generally I think institutions hate third-party marketers, they think they're parasitical," he says.

"However, I think institutions should be happy when being approached by third-party marketers. We've done some due diligence and we are not going to present them with anybody who is going to embarrass them. I do think some are turning that way."

Some managers decide to forego introduction services and choose to meet investors themselves, which includes attending conferences as well as other events. However, Lisa Vioni, who recently set up the virtual capital introduction website HedgeConnection,com, points out most conferences won't give out attendee lists any more, so the value becomes very low for a hedge fund.

"When hedge funds go to these conferences, 80% of them are going to meet investors and that's all they care about," Vioni says. "So the conference business needs to change its model."

Investor wish lists

Being aware of and in tune with what investors want is a big part of securing money. Stocks believes high-net worth individuals (HNWIs) and institutional investors are essentially looking for the same thing. However, institutional investors are more likely to be looking for a safer investment.

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"Institutions are pushing hedge funds to become more institutional themselves," Stocks says. "They require hedge funds to have more of an infrastructure and more of a head count. Institutional investors have a system-based approach instead of looking for a manager who knows the markets, knows how to make money and is more intuitive in his approach."

He believes HNWIs are more willing to invest in the manager rather than his fund, whereas the institution is looking at the fund and management company rather than the manager.

Often HNWIs go for smaller funds thinking those have the ease to make good returns. As Stocks points out, it is easier to make US$50m on a US$50m fund than it is making US$1bn on a US$1bn fund.

Being a manager in a specialised area can also help, according to Vioni: "If you're running a niche strategy and you have been in that industry for 15 or 20 years, you know that industry and you have a story to tell, people are probably willing to take a shot and invest in you. So it depends who you are and how you position yourself."

But Stocks stresses, the most important aspect investors look for is that the manager is investing in their own fund.

"If as a manager you believe in your fund you would invest in it," says Stocks. "Anyone who believes in their strategy would do that. But if you are waiting to see if you are successful before you start investing in it yourself, why should anyone else invest in you?"

Making marketing count

Marketing is also a necessity, although many underestimate its importance. Jane Halsey, president and founder of Roundtable Forum, an independent capital introduction event, understands why start-up managers sometimes struggle to understand the impact of marketing.

"Marketing a fund is unfortunately a necessary evil," she says.

"You can't run a fund unless you raise money, but on the other hand, you can't run a fund unless you can concentrate on running the fund, so it's a *Catch-22* situation."

She further concedes marketing is "one of the most capricious, ridiculous processes you will ever subject yourself to".

"It's gruelling and it's difficult," says Halsey.

"But whatever you do, it needs to be highly organised and focused, or you are going to do a lot of wheel-spinning."

> **"If you seed five hedge funds and you get a percentage of their management company and if only one of them hits big, you've got a home run investment"**

Manager profile

However, once the minimum requirements on the investors' wish lists are met and managers have managed to attract their initial attention, the main priority is how the manager comes across.

Investors will generally not part with their money unless they have met the manager at least a few times. However, as Vioni points out, managers are not always adept at making a good impression.

"It's really interesting to watch the managers in meetings and what they're saying," Vioni says.

"Managers are typically not salesmen. And they're usually not that sensitive to certain things. Most of them are traders and often they do mess up that way."

However, Vioni believes, if managers are truly good at what they do and the investor is smart, they should be able to see beyond that.

Lisa Vioni

Stocks agrees that even the best manager strategically can let themselves down when it comes to presenting their fund to potential investors.

"If a manager's presentation is a little too produced, people don't believe it," he says. "And sometimes, you stop them halfway through and ask them a question which throws them and they have to start right at the beginning and do their spiel again, which is terrible. If you get somebody like that, you can't present, it's almost impossible to sell them."

But whatever the first impression, the process of chasing investors is vital. Halsey, whose Roundtable Forum facilitates meetings with investors at events four times a year, says: "We encourage managers to be proactive, to send out a letter to everybody in attendance at the event and to really follow up from there. It's not enough to send things in the post or by email; you have to eventually arrange a follow-up meeting."

And past performance is not always considered the most important factor for investors, as it is not necessarily indicative of future results.

Halsey says: "Just because you have managed money successfully under somebody else's roof doesn't mean you have the ability to do it with all the other pressures, when it's your own shop. It is comforting to see there is some background and expertise, but I don't think people rely on that as gospel."

On the horizon

One other option for hedge fund managers is turning to seed investors. For a percentage of the management company, 'seeders' will give hedge funds the initial cash they need. And according to Vioni, an increasing range and number of investors are prepared to seed a hedge fund.

Some family offices, for example, are now looking at becoming seed investors, Vioni says. "Seeding hedge funds is a great business model. If you seed five hedge funds and you get a percentage of their management companies, and if only one of them hits big, you've got a home-run investment. Therefore, more investors are getting into that business."

And even the big funds of funds, which traditionally have to invest in larger hedge funds, are after a piece of the smaller start-up cake.

"Bigger funds of funds are realising they are missing out on a lot of opportunities, so they're starting divisions, where they can invest in these smaller hedge funds – a lot of emerging manager funds of funds are popping up."

Attracting assets might therefore not be as difficult as many claim. In fact, Vioni believes the tide might have turned. "While there are more hedge funds, there is a lot more money going into hedge funds than ever before. One outweighs the other," she says.

"There are more avenues to get money for start-ups than there were before, due to all these people seeding hedge funds. I don't think it's harder – it might even be easier."