Best practice

Enter the marketing consultants

In the face of industry headwinds, hedge funds and their partners need to adopt a more sophisticated approach to marketing, Castle Hill Capital Partners' Andrew Saunders argues

Andrew Saunders

This year will likely go down as one of the most challenging years hedge fund history, with managers overwhelmingly tarred with the poor performance/high fee brush. In the face of these headwinds, internal marketing and IR functions have to expand with professionals that are more experienced, knowledgeable and empathetic to clients' needs, while external support sources also need to shift.

Traditional cap intro events and transaction-based third-party marketing aren't as effective or simply not sufficient in and of themselves. As hedge funds have to compete more aggressively for capital, they require creative strategies and ideas.

Hedge funds – with the help of a new breed of marketing consultants – need to adopt a more sophisticated, professional approach to raising capital, which takes into account a broader set of considerations. The environment has caused another move forward in the professionalisation of the industry and the work required to overcome fund-raising challenges are more consultative and process-driven, as opposed to transactional, in nature. These include:

Marketing plans: Managers should create and implement a plan which caters to their individual needs, attributes and headwinds/tailwinds. A marketing plan should include the strategic use of prime brokerage capital introduction, external conferences, branding activities, educational pieces and strategic partnerships. More importantly, it should provide a road-map for managers to determine their ultimate fundraising and relationship goals. Buyers of hedge funds exist in a tail of the distribution that is long and carrying out the various stages of a well thought-out marketing plan should make it easier for managers to identify suitable investors and vice versa.

Alternative events: As prime brokerage platforms continue to direct time and attention to their most profitable and/or most balance sheet-efficient clients, a number of conference companies have entered the business to provide cap intro alternatives. Marketing consultants should not view these events as competitive: they are tools that can and should be deployed based on specific needs, requirements and attractions of a given strategy, manager and position in a fund's lifecycle.

Message development: Hedge fund strategies can be complex and while managers are generally very proficient at explaining how interesting their strategy is to them, they aren't as good at explaining to an investor where the strategy fits in their portfolio and why they should care. Time is a valuable commodity on both sides of the table and managers need to make sure their strategy articulation is succinct and oriented to the needs of individual investors. Practicing, filming and analysing a pitch, and collecting investor feedback, can all be incorporated to improve manager performance when presenting their strategy.

'Form factors': Hedge fund managers don't simply manage onshore/offshore master-feeder structures, they come in several guises, or to use tech parlance, "form factors". Ucits and '40 Act funds, managed accounts, Insurance Dedicated Funds, Registered Investment Companies and sub-advisory relationships can all be used to augment a flagship product but each of these needs to be evaluated carefully. A strategy consisting entirely of "If we build it, they will come" no longer works; channels need to be understood and appropriately resourced, with suitable vetting done well in advance from a marketing and distribution perspective to ensure all partnerships and products are aligned.

Internal structure and operational strength: As hedge funds grow and become more complex; their compliance burden expands and product breadth increases. The IR, business development and marketing needs of a firm have to adapt accordingly in the form of talent acquisition, compensation guidance, investor segmentation and client onboarding protocols.

Investor targeting and segmentation: Too often monthly distribution lists become stale, with managers unclear on who is following the firm and how to segment the investor universe to prioritise a manager's time appropriately.

Investor introductions: Investor introductions need to be strategic and relevant, which requires intimate knowledge of the hedge fund strategy as well as the potential investor. Managers should require any external marketing partners to sign non-disclosure agreements help facilitate the trust required. Additionally, not earning a fee per introduction made leads to a different approach based on relevance and adding value to the investor's portfolio as well as the manager's client base.

The evolution of the hedge fund industry continues. Firms are adapting to the increasing expectations of their clients and need to work harder than ever to overcome current investor scepticism. Long-term partnership-focused marketing consultants can help meet the increasingly complex challenges that managers face. ■