

3PM News

A forum for third party marketers
and investment managers

Sponsored by
The Third Party Marketers Association

Second Quarter 2007

Message From the Board

This is a great time to be a Member of 3PM. There is just so much going on!

We are all very excited about 3PM's new compliance initiatives. Our kick-off event was the live **3PM-Resources™** demonstration hosted by ComplianceMax which gave our Members a detailed look at the compliance platform that was designed especially Third party Marketers and will help our members meet the stringent regulatory requirements of this industry. cMax has also been gracious enough to offer additional demos to any of our Members that could not participate in the June 12th web-cast. If you are interested in scheduling a demo of **3PM-Resources™** please contact either Patricia or Wade in the sales group at ComplianceMax at 888-879-9900.

Later this month, (June 25th at 1:00 pm EDT) we will hold our first 3PM Sponsored web-cast: **Compliance and Regulatory Issues for 3PMs with Broker/Dealers**. The web-cast was designed for 3PMs and will include a discussion on NASD rules that are applicable to our members. This web-cast is free and we encourage

you to participate.

We have also started work on our next web-cast - State Registrations: A Guide for 3PMs. The web-cast will be led by a member of the North American Securities Administrators Association's (NASAA) Board. We are hoping to schedule this web-cast for late July or early August. More details will be sent to Members once the agenda has been finalized.

And . . . Before you know it, it will be September and time for 3PM's Fall Conference. See more details regarding this event below in the Events and Membership Committee Update.

In the past several weeks, we have also seen interest in the Association sky-rocket—and this is just through word of mouth—imagine what will happen when Sandy Powers and the Membership Committee go out and start actively soliciting new Members? The sky is the limit! If anyone knows of any 3PMs that are not apart of the Association, please suggest they join us. For all current members, please remember to renew your membership in 3PM by June 30.

As always we welcome your input and suggestions and look forward to seeing you in NY in September! ■

Events and Membership Committee Update

By: Sandra Powers, Committee Chair

3PM Fall 2007 Conference September 26-28, 2007 New York City

We would like to thank everyone who took the time to complete the most recent member survey that was sent around and that was used to determine the location and agenda for 3PM's 2007 Conference.

The conference will kick off on Wednesday evening September 26, 2007 in New York City. The event will begin with a networking cocktail hour and dinner. We are currently exploring several great locations for this fun event. Let us know if you have any suggestions.

The conference will be held at The Coleman Center on September 27th and will feature a full day of sessions with the agenda focused around those topics our Members chose as those of most interest. Sessions will include discussion regarding Legal and Compliance Issues with a focus on contracts, Manager Selection and Due Diligence, and the ever-popular "Tips from the Old-Timers".

This year we are also going to give members even more opportunities to socialize and get to know each other better. Immediately following the meeting, we are planning a cocktail reception where members can end the day interacting and recapping the day's event. We are also offering an optional golf outing in Westchester

the morning of Friday September 28th for those who are interested.

Although the conference is a while away, hotel space is very tight. The two closest hotels are already full, and thus we HIGHLY RECOMMEND IMMEDIATELY BOOKING AT THE NOVOTEL HOTEL. You can currently reserve at a reduced rate of \$340/night with The Coleman Center discount (you must mention The Coleman Center at the time of booking to get the discount). The Novotel New York Times Square is located at 226 West 52nd Street; call 1-212-315-0100 to secure your reservation today.

More information pertaining to the conference registration, the agenda, as well as the location of the dinner and cocktail reception will be sent as this information is finalized.

3PM Fall 2007 Conference To Dos

1. Call 1-212-315-0100 to book your room today; make sure to mention The Coleman Center to get your 3pm discount rate
2. Send an email to Sandra Powers at powers@arkglobalonline.com if you want to be added to the 28th am golf outing list
3. Have any additional thoughts or ideas you would like to share to make this fall's conference particularly valuable for you? Send an email to Sandra Powers at powers@arkglobalonline.com ■

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Portable Alpha: An Institutional Investment Strategy

By Mark Meyocks, Perseides Partners, LLC

A major national consulting firm has made it known that future searches for their client's Core Equity and Core Fixed Income allocations will use Portable Alpha strategies to meet those investment needs. They are only one of many institutional investment advisors that have been recommending allocations to this fairly new vehicle in the financial marketplace. What is Portable Alpha and how does it work? This is a question that has created a fair amount of confusion for the decision makers given the fiduciary responsibility for directing the pools of money considering this Portable Alpha strategy. It is a question requiring a significant increase in the need for education and guidance. Fortunately this need also creates an opportunity for those willing to make the effort to learn more about this strategy.

To understand Portable Alpha, one must first understand some of the terms used to describe what the investment process will apply to meet the investors expected return objectives. Some of these terms are similar in meaning to those familiar to most institutional investors and their advisors while others are somewhat different or entirely unique to this process. For instance, in the Portable Alpha world, *Beta* is the measurement of a market's return without additional influences, like those coming from the use of a portfolio manager. Investors may buy Beta by purchasing from a wide assortment of passively managed index funds. The trade off with such a purchase is that even these funds will have certain costs associated with their management thus net returns will consistently fall below the returns of their respective benchmarks (S&P 500, Lehman Aggregate Bond benchmarks, EAFE and countless others like them) not having these same management costs.

Alpha is the source of available return offered by an investment manager as an excess to the Beta or benchmark. Positive Alpha is value or return added while Negative Alpha is value or return below the Beta or benchmark. It is important to note that this added value or return should be in line with any additional risk taken to achieve it or in other words measured in terms of the net value added at a similar levels of risk! The desire for Positive Alpha is the reason investors retain active managers of securities as they believe this will increase their chances of beating the underlying benchmark(s) used to measure the success of an investment portfolio.

Portable Alpha is taking the source of

the Alpha and making it flexible enough to be successfully applied over time to multiple Beta options. Huh? In other words, if you can place an excess return from a Portable Alpha manager over any investment benchmark surrogate, thus beating that passive benchmark, you have created Portable Alpha.

It typically works by purchasing a derivative, much like the futures contracts that farmers have used for decades to hedge the fluctuations in the price of corn and cattle for example. An index future can be bought to represent the commodity of Beta (i.e. S&P 500, S&P 400, Russell 2000 value/growth, Lehman Aggregate indices, etc.). Then the manager applies a strategy to generate Alpha to that Beta, hopefully increasing the chance of adding value to this index.

Where the strategy gets a little confusing for investors is how the money is allocated to accomplish this objective. For instance, the Portable Alpha manager may first purchase futures representing the entire Beta using only 5% of the portfolio's assets. The remaining 95% of the fund's assets will then be allocated to the Alpha strategy. Within this Alpha generating strategy, the manager may use a combination of purchasing securities representing various industry groups and sectors that he believes hold great promise to appreciate while selling short other industry groups and sectors he feels hold equal or greater promise to decline in value to successfully generate Alpha.

An investor considering the selection of an Alpha generating manager should understand that many of the same risks associated with active management in the investment world exist for the Portable Alpha manager as well. The Alpha may be positive or negative in any time period. The fiduciary should seek an advisor with a tenure of successful results, while realizing that an advisor's past investment results give no assurance of future investment performance.

The institutional investor has many options available to implement Alpha generation. They may invest their moneys with an individual Registered Investment Advisor (RIA) using long-short strategies to drive Alpha or use a hedge fund of funds which oversee several managers taking different approaches to the investment process. The issue from a fiduciary's perspective becomes one of determining whether the Alpha component's allocation is inline with the investor's risk perimeters.

These risks include many factors. The fund may be limited in its ability to manage

the risks of leverage within a Fund of Funds vs. using a RIA. The investor or fund typically has the option to limit its participation in a levered or unlevered portfolio through guideline directives with an RIA where that option for customization may not exist in a Fund of Funds environment.

A Fund of Funds offers no transparency to the investor. This may cause the different funds' respective management to be at cross purposes to one another on an investment. An individual RIA can offer trade by trade confirmations and statements listing all long and short activities through their primary brokerage accounts and the investor's custodian.

The potential for extensive leverage application, the lack of transparency to the investor and the costs associated with Hedge Fund of much as 3 times more in fees compared to managers who accept an assignment within the typical Registered Investment Advisor marketplace for management expertise. The fiduciary should evaluate all these factors intelligently. It is not to say that a Fund of Funds may not satisfy the best interests to the fiduciary and their beneficiary's needs but all the issues involving a Fund of Funds should be disclosed and alternative risk options offered to meet those needs.

Today, more leverage exists in the financial markets than ever before due to Hedge Funds (regulated or not), Private Equity funds and the ever increasing exposure posed by long/short strategies like 130/30 programs (130% long securities – 30% short securities). All investors should realize that the leverage that is good today may be less so tomorrow.

Portable Alpha strategies require an extensive learning curve and a high degree of sophistication. Yet in a time when fiduciaries need to take measured risks to meet the needs of their beneficiaries, the placement of assets into Portable Alpha strategies using a combination of passive and active management can control risk and increase return when handled properly. Portable Alpha is an investment option well worth consideration.

About The Author

Mark Meyocks is President of Perseides Partners, LLC a Third Party Marketing firm based in Las Vegas, NV. Mark has held the designation of Certified Investment Management Analyst (CIMA) and has been in the financial services industry for 25 years. He is a graduate of Iowa State University and Chairs 3PM's Communications Committee. ■

Customer Relationship Management: An Indispensable Tool For Investment-Related Firms by Yacov Wrocherinsky, Founder and CEO of Infinity Info Systems

In today's world, Investment Related firms are facing new and rising challenges like never before. These factors not only hinder their ability to grow, but also make the task of managing clients a truly difficult one. In order to make an effort to track the important details, most firms use various techniques such as internal databases, scattered Excel spreadsheets and other ad hoc methods which make updating data, tracking and assimilation difficult and time consuming. Our extensive work with Investment Firms has given us an insider's perspective on the difficulties they face each day. With data scattered around the firm, some of the more challenging areas to manage are:

- **Contact Information:** Firms struggle to see a 360 degree view of prospects, clients, consultants, potential investments and others.
- **Investor Accounts:** Firms are unable to get a comprehensive view of their investors and where they are invested.
- **Pipeline Management:** Generally most firms have poor or inaccurate forecasting of how much money is available to invest by fund or investor account.
- **Activity Tracking:** Keeping track who said what to whom (what PPM's and reports were sent) is extremely time consuming and labor intensive.
- **Service Management:** Without a comprehensive view of the customers and funds, firms are not able to figure out what customer is getting what service.
- **Business Intelligence:** Firms have difficulty turning business data into actionable information that can be used to bring in more money and greater returns.
- **Mobility:** Marketers are constantly out on the road, so getting the data you need when and where you need it is imperative.

A well-developed CRM system can offer Third Party Marketers, hedge funds and asset management firms a better way to bring together and organize all their client information. It can allow marketing and client relationship managers to quickly access prospect and customer information so they can more efficiently secure, retain and serve clients. The proper CRM system can replace all other methods of tracking information – internal databases, scattered Excel charts.

When looking to choose the CRM system that is right for your firm, you should keep in

mind several requirements that are essential to getting a system that will provide for your needs both today and tomorrow.

First, users should have the ability to pull together emails, contact information, Word documents, Excel spread sheets, detailed holdings and transaction data into a single database. An efficient CRM system will provide various queries and views of the client database that can yield information, for example, on prospects; a fund's investors and assets; and can tell managers how clients prefer to receive reports. Specific functionality includes:

- **Contact and Activity Management:** Track phone calls, meetings, to-do's, e-mails sent in Outlook and manage them on a centralized calendar.
- **Limited Partners (LP) Administration and Service Capacity:** Track historical data, services (K-1s, audit requests, cap calls), and detailed transactional data.
- **Pipeline and Sales Management:** Plan and forecast committed dollars and analyze closed won/lost business (for M&A, deal management and tracking of relevant parties such as PE firms, Law Firms and Investment Banks).
- **Knowledge, Extraction and Reporting:** Turn data into actionable information, for example, managers can analyze cross-sell opportunities and manage distribution lists.
- **Mobility:** The solution should keep firms connected to their data regardless of where or when they need it. The system should be accessed via laptop, Blackberry™, PDA or through the Web.

The CRM system should be easily customized to generate specific reports by pulling together client information, history, notes and emails. It should automate many of the manual processes for creating and disseminating invoices, monthly statements and customer reports. Tasks that normally take tens of hours each month requiring a multitude of resources can be completed with a few simple clicks within the CRM system.

A good CRM system should also provide firms with a business dashboard that contains relevant Key Performance Indicators (KPI). KPI's provide executives, managers and brokers with real-time financial information about their funds, customers and investments. The individual should be able monitor the KPI's through the business dashboard and drill down into them to make informed

business decisions, projections, and spot investment opportunities and manage customer accounts. The business dashboard should allow the user to easily add any type of information or statistic that is specific or unique to a company or customer.

Additionally, the CRM system should connect to back office and external data systems (such as Money Market Directory, Nelsons, Portfolio Management and Partnership Accounting) so the firm can harness the power of all their data to better serve their customers.

A successful CRM system is an essential piece of the business strategy for the firms in today's world. With a system in place, firms can effectively manage relationships, client

Top 10 Things You Should Look For In Your CRM Consultant

1. Are they a software consultant or do they specialize in CRM
2. Choose an implementation partner that has in-depth vertical experience in your market
3. Look for a company that will find a solution to fit your business, not the other way around
4. Research the company you choose to work with, make sure they have a knowledgeable, certified and experienced staff
5. Find out if there is support and training available - these are essential to having a successful implementation
6. Check to see how long the company has been in business
7. Ask about the number of projects they have implemented
8. Find out what size companies the CRM consultants typically works with
9. Request references – find out how they have worked with other companies
10. Ask how your new investment will help generate ROI

data, track leads and forecast sales. By consolidating data and automating manual processes, CRM can save firms countless hours of staff time that can be redeployed to help the firm better service its customers and grow its assets under management. An investment into a CRM system today can help firms get on the path to sustain long term growth.

Customer Relationship Management *Continued*

Infinity Info Systems has been serving the financial sector for more than 20 years and developed SalesLogix for investment-related firms to help them understand and manage their complex customer relationships. More than 85 firms are successfully utilizing the software to help them grow assets under management, increase their productivity and differentiate themselves from their competition through better customer service.

Sign-up today for a live webinar on Infinity's CRM solutions taking place on July 12, 2007. Contact marketing@infinityinfo.com or 646.747.6388 to register.

For more information on Infinity's CRM solutions for the Buy-Side, please visit our website at www.infinityinfo.com or contact us at marketing@infinityinfo.com or 646.747.6388

About The Author

Yacov Wrocherinky is the founder and CEO of Infinity Info Systems. Since 1987, Infinity has specialized in contact management, sales force automation and customer relationship management software and services. To date, the company has successfully completed more than 3,500 CRM implementations and trained more than 120,000 professionals in the financial, publishing, life sciences and business services industries around the world.

SalesLogix for Buy-Side Firms is the CRM system designed specially for hedge funds and other Buy-Side institutions. Based upon SalesLogix® by Sage—the leading CRM system for the mid-market—SalesLogix for Buy-Side Firms is designed to give marketing and client relationship managers quick access to prospect and client information so they can more efficiently secure, retain, and serve clients. SalesLogix for Buy-Side Firms is easy to use and allows fast access to client and prospect information in a few clicks or less. ■

Don't Forget to Join 3PM for our first Association Sponsored Web-cast

Compliance and Regulatory Issues Facing 3PMs Operating Broker/Dealers

June 22, 2007 at 1:00 EDT

Register at www.3pm.org

An Old-Timer's Tale: Starting a 3PM Firm

By: Ron Oldenkamp, President, Genesis Marketing Group

In 1987 I finally made the decision to start my own firm. The previous 15 years, I worked for major insurance companies in their institutional marketing departments selling a variety of fixed, equity and real estate products. At that time, I felt that I had enough experience and knowledge that would enable me to have a reasonable chance of success as a 3rd Party Marketer.

The biggest challenge of course was going from an employee to an owner operator, handling all aspects of a small entrepreneurial business. Other challenges include picking the right manager, structuring your firm to achieve maximum productivity and efficiency, keeping up with changing complexities of our business, (i.e. Compliance), and proper contract structure with new money managers.

One of the trickiest challenges is picking the right money manager. The selection process is both an art and a science. First of all, it's important to pick a manager that you feel will have traction in the marketplace. Secondly, is he prepared to work hard to meet the rigorous demands the marketplace puts on a manager in the evaluation process? Part of this also includes managing the expectations of the manager and doing your best to be sure he goes in with his eyes open. A clear understanding of expectations by a manager prior to entering into a contract is critical to maintaining good relations going forward.

One of the biggest lessons I've learned is in designing a contract with the manager that truly protects your interest. During my 20

years in the business, the most significant area of dispute is derived from the manager not paying the 3PM for services rendered. If pushed to litigation or arbitration, the outcome is heavily weighted towards the language of the contract. Be sure you have a good contract attorney or litigator to review your contract to make sure it says what you think it says.

It's also critical to the longevity of your firm, that as an entrepreneur you structure contracts that include payouts for as long as the money manager is advising or managing a portfolio for your clients. This of course applies primarily to the traditional long only strategies. I have found this a key component to the long term stability and success of Genesis Marketing Group. This structure provides steady cash flow for your firm and allows you to weather down trends in your business. Genesis has certainly benefited from this structure, for example, managers we began working with in 1991, are still sending us checks.

After twenty years as a 3PM, we are continually thinking creatively regarding our business. We have developed relationships with a number of other 3PMs, which we have found to be mutually beneficial. Our firm remains small, with five support staff and three sales representatives and our client list includes from four to six high quality boutique money managers.

Being a 3PM firm has been a fun and exciting adventure. However, it's important to be mindful of the challenges and be smart about your choices. ■

Member Benefit Committee Update

By: Erika Cramer and Darien Gould, Co-Committee Chairs

While the results of the recent survey has indicated fair interest for due diligence and background checks, it is clear from member responses that cost will be a major factor in the decision to retain an in-depth provider such as Corporate Resolutions. The Member's Benefit Committee is in discussions with Corporate Resolutions and other providers to offer a less detailed service that is more technology based at a reduced rate. However, members are encouraged to refer Corporate Resolutions to their managers for producing background check reports that can serve as a section of any due diligence questionnaire. There are several benefits to the manager from using this service:

- Each time a prospective investor hires a private investigator or requests credit reports on a manager, the credit rating is

affected. A Corporate Resolutions report is certified and can eliminate the need for additional checks.

- A certified report can reduce time focused on due diligence thereby facilitating the sales process.
 - The manager becomes fully aware of all circumstances that can potentially deter an investor, allowing the manager to act in the offensive versus defensive.
- Stay tuned for updates on other options.

By now, you have no doubt heard about **3PM-Resources™** and may have even participated in the live demonstration. We are hoping to start rolling out the compliance platform to members on July 1. More information about **3PM-Resources™** and cMax is available at www.3pm.org. ■

Member Profiles

Arrow Partners, Inc.

Founded in 1995, Arrow Partners sells traditional investment management (primarily domestic small cap managers) to U.S.-based institutional investors and financial intermediaries. In 1998, Arrow Investments was formed, an NASD-registered broker-dealer to sell alternative investments.

Steve is the past President of the Third Party Marketers Association and has been successfully marketing investment products to institutional investors for 20+ years. Prior to forming Arrow, Steve was most recently Vice President at Bankers Trust Company in their Global Investment Management Group. Prior to joining Bankers Trust, Steve marketed independent research to institutional investors for Institutional Research Services. Steve began his career at Drexel Burnham Lambert, where he sold independent research products and services to financial institutions. Steve earned his BS in Finance from Lehigh University

Ken has served in a number of sales and management roles in the investment industry over the past 20+ years. Ken joined Arrow in 1998. From 1988 to 1997, Ken was Principal and Managing Director, BARRA RogersCasey. While there, he led the marketing and sales effort and served on the firm's Executive Management Committee. Prior to joining BARRA RogersCasey, Ken spent four years at Metropolitan Life Insurance Company. Ken earned his B.A. in Business and Communication from Muhlenberg College in 1985. He currently serves as an Associate Trustee of the College.

Cedar Partners, Ltd

Cedar provides superior institutional sales and marketing services to a limited number of style-diversified money managers. Our full-service, cost-effective solution allows our clients to focus on the business of managing money, while we focus on growing their assets. Cedar Partners' competitive and dedicated team of four sales and marketing professionals, with over 30 years of institutional marketing experience, have worked with over 20 style-diversified managers and helped raise over \$17 billion. To accomplish

this, Cedar provides three services to our client money managers. The first is to help each manager create, develop and refine their marketing materials, as well as to help them deliver the best presentation to the right target audience. Secondly, Cedar submits thorough information to databases, completes all questionnaires and responds to applicable RFP's. The third is to make approximately 200 face-to-face meetings per year with top consultants and plan sponsors. Cedar Partners coordinates all aspects of the meetings, and will network and build relationships to maximize product exposure.

Perseides Partners, LLC

"To identify, select and represent top-tier investment professionals with a proven history of consistency, integrity and superior value-added performance and to successfully introduce these same people and their organizations to the institutional investors that benefit most." This is the purpose of Perseides Partners LLC, as expressed in our Mission statement.

The firms we seek to represent share two distinct characteristics; they offer superior performance and services consistent with our mission criteria and secondly, they have not yet realized a level of asset or business growth consistent with that superior performance and/or service. We aim to remedy this imbalance by successfully introducing these organizations to our extensive network, primarily within the Taft-Hartley marketplace.

Founder and President, Mark Meyocks has served for over 25 years in a wide variety of competencies including stockbroker, trader, principal, manager and investment management consultant. He received a B.S. from Iowa State University. Presently he is also Chairman of this organization's Communications Committee.

CEO Jim Webb joined Mark in March 2006. He has an extensive background beginning with Merrill Lynch in 1979. He spent the last 18 years as an investment consultant and in various senior management roles, including Director of Consulting Services at Kemper Securities and Principal/Director of Marketing at DHJA LP. Jim has a B.S. from Florida State University.

Upcoming Industry Events

3PM Web-cast: Compliance and Regulatory Issues Facing 3PMs, June 25, 1:00 EST.

www.3pm.org/resources

Family Office and Private Wealth Management Forum, July 11-13, 2007, Newport, RI, www.opalgroup.net/conferencehtml/2007/private_wealth07fam_off_private_wealth.php

Public Fund Summit East, July 11-13, 2007, Newport, RI www.opalgroup.net/conferencehtml/2007/public_east07/publiccast.php

3PM Fall Conference, September 26-28, 2007, New York, NY, www.3pm.org/news

Advertising Regulation Conference, Sept. 2007, Washington, D.C., www.nasd.com/EducationPrograms/ConferencesEvents/

NAIBD—Fall Technology and Compliance Symposium, October 1, 2007, New York, NY. www.naibd.com

Advertising Regulation Conference. The Future of Distribution in Financial Services, Dec. 4, 2007, The Waldorf Hilton, London, www.marketforce.eu.com/FS/

3PM News

Communications Committee

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