



MFA Reporter

Reporting on issues for investment professionals in futures,
hedge funds and other alternative investments

The Ultimate Hedge Fund Salesperson

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WANTED: *The Ultimate Hedge Fund Salesperson*

Hedge fund seeks polished executive with huge Rolodex of investors who actually respect him/her; must be able to travel extensively and turn on asset flows at will; can discuss the details of hedge fund strategies like a world-class portfolio manager and can close deals like a world-class used car salesman; must raise more assets than ever thought possible and must retain all assets in the face of plunging performance; an ability to deal effectively with neurotic and impatient hedge fund managers is a decided plus.

Superior investment performance will always attract its fair share of investors, but with 8,000 or so hedge fund choices, managers can no longer be so confident that the money will quickly find its way to their door. Enter the Ultimate Hedge Fund Salesperson (UHFS) to take a simple stock picker to the ranks of \$1 billion hedge fund managers. Unfortunately, that journey can be long and painful if the right salesperson is not driving your asset gathering train.

A Scorecard for Your UHFS

Harlan Simon, managing director at the Clinton Group believes that "... a good salesperson should be able to take an investor 95% of the way down the path to making an investment." Even with abundant invitations to finals presentations, the managing partner or lead portfolio manager must be willing to pitch in and travel to close deals. If you are not willing to show up in Wisconsin in February and politely respond to questions from a large investment com-



Now with so many entrants in the race, raising assets above the \$100 million hurdle, before patience and working capital run out, is the real test of survival.

mittee, then you can kiss those allocations goodbye. For smaller funds, the number of on-site visits from funds of funds analysts or the frequency of attentive high-net-worth guests at dinner meetings are both good indications that the UHFS is doing their job.

Capital Introduction at Your Service

Even the best UHFS can use a little leverage to reach more investors, which leads us straight to the "Cap

Intro" floor of our friendly neighborhood prime broker. "There should not be competitiveness between the cap intro staff and hedge fund salespeople – they should work in conjunction, as an extension of the sales team," advises David Barrett, managing director and head of hedge fund origination at Merrill Lynch. Mr. Barrett, perhaps the leading originator of the capital introduction concept, explains that "... the cap intro executive is typically swamped with mandates from dozens of hedge fund managers and invitation requests to institutional investor conferences. When a



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| The UHFS Scorecard . . . | more than just cold calling |
|---|---|
| <i>Professional quality marketing materials</i> | <i>Efficient distribution channel strategy</i> |
| <i>Competitive positioning of product</i> | <i>Maximize capital introduction support</i> |
| <i>Consistent prioritization of likely buyers</i> | <i>Coach portfolio managers for presentations</i> |
| <i>Relationship building with consultants</i> | <i>Professional client communication</i> |
| <i>Fluency in asset allocation discussions</i> | <i>Asset retention during mediocre performance</i> |
| <i>Invitations to finals presentations</i> | <i>Honest representation of return expectations</i> |
| <i>Efficient use of conference circuit</i> | <i>Communicate investor preferences</i> |

hedge fund salesperson comes in and gives a compliment to her boss, then his fund will likely get more attention,” he observed. Mr. Barrett correctly points out that some hedge fund salespeople are worried about sharing the credit with others, but maintaining positive relations with prime brokers and maximizing a fund’s asset gathering reach is clearly a better path to success.

Picking the Right UHFS for Your Fund

In hiring the right hedge fund salesperson, a manager should first delve into the relative strength of the candidate’s distribution channel experience and determine if this is a good match for his fund. This should be followed quickly by judging their ability to clearly explain complex investment strategies. Listed below is a selection of the likely suspect investor categories which your UHFS will be including in his/her expense report. Of course, the appropriate sales channels and client targets depend on your fund’s strategy, lifecycle point and ultimate growth goal.

Stepping Up to the Institutional Game

“Selling hedge fund products to institutions has a long fuse,” confessed one salesman at an established New York hedge fund of funds business. He added that “this is not writing tickets on a daily basis and the salesperson should be able to articulate that to the boss.” Joe Gieger managing director and head of U.S. institutional sales for Global Asset Management agreed that “the typical institutional sales cycle is 12-18 months.” In his opinion, “many hedge fund salespeople are too transaction oriented – it’s not a quick product sell, it’s a relationship sell.”

One leading endowment fund manager believes that the most successful hedge fund marketers are able to “articulate the value added from the firm’s unique investment edge, team strengths, risk management capabilities and alignment of interests with their investors.” This endowment manager further advises salespeople to “always tell the truth – no need to ring alarm

bells on your weaker points but be honest in the spirit and letter of representation.” This would include any significant information the investor would want before making a decision. An ability to clearly read the buyer’s decision cycle along with his or her manager selection criteria are other key ingredients in the recipe for institutional asset gathering success.

In the game of managing assets on behalf of institutional investors, the initial pitch is only the beginning of the relationship and the responsibility. “The first step in the sales process is detailed research so that you understand your customer,” cautions Michael Tobin, managing director of U.S. institutional sales for VegaPlus Capital Partners. “In the first meeting, you should not try to sell your product, but talk about investing in general and explain how your product might fit into their portfolio,” said Mr. Tobin. The UHFS does not try to force a “one call close,” but proceeds to build credibility through consistent contact and providing pertinent information which will benefit the investor.

| Distribution Channel Options | |
|-------------------------------------|--|
| <i>High-Net-Worth Individuals</i> | <i>Taft-Hartley (Union) Funds</i> |
| <i>Family Offices</i> | <i>Wirehouses and Private Bank Platforms</i> |
| <i>Funds of Funds</i> | <i>Structured Product Platforms</i> |
| <i>Foundations & Endowments</i> | <i>Insurance Companies</i> |
| <i>Corporate Plan Sponsors</i> | <i>European Banks</i> |
| <i>Public Funds</i> | <i>Asian and Other Overseas Investors</i> |



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Don't Forget Client Service

While quickly getting assets in the door may be the lifeblood of most emerging hedge fund managers, the UHFS job description includes sales, marketing, client service and other relationship management functions which help to either increase or retain assets. According to GAM USA's Joe Gieger, "many hedge fund managers have been handling client service in a reactive manner, just responding to incoming calls and sending out a brief quarterly report." He added that "the better (and bigger) managers have moved to a proactive approach by offering detailed and frequent communication whether performance is up or down and anticipating investor questions before being asked." "We view our head of client relations as a key strategic partner within the firm," said Tom Hirschfeld, chief operating officer of Halcyon Management Company. "A timely and accurate flow of information is crucial as is listening to what clients are saying," he added. The main message is that consistent and professional communication will be recognized and rewarded.

Don't Shoot the Messenger.... Institutional Standards

A large part of building credibility with investors involves the UHFS advising management as to what the fund must do to meet institutional standards. Cracking the code with U.S. institutions starts with gaining the respect of the gatekeepers. Leading pension consultants such as Russell, Callan and Cambridge Associates, really do care about business infrastructure and risk management, so listen closely to your UHFS when they report back from the field. Most consultants also maintain their own database of managers and your salesperson should make sure your fund(s) are represented at all appropriate firms. At a minimum, a salesperson should prepare an internal due diligence questionnaire

before setting up institutional meetings – this is now common and most investors expect it, especially funds of funds.

The Key to Long Term Success

It's not a quick and easy game, but the right salesperson can yield satisfying results and minimize redemptions in lean times. Clinton Group's Harlan Simon sums it up by saying: "It is important to develop a rapport with investors during the process of bringing them into your fund. Investors who are most likely to stay are often those who pulled the most information from the salesperson during the due diligence process. Fast money is a mixed blessing in that it is often fast in, fast out."

In the past, the hardest obstacle when launching a hedge fund was finding the one remaining mountain peak or Greek god still available for your fund's name. Now with so many entrants in the race, raising assets above the \$100 million hurdle before patience and working capital run out is the real test of survival. Plenty of hedge fund managers learned the hard way that to achieve and then maintain a critical mass of assets, it really does pay to hire an experienced, professional client executive. Hedge fund sales and marketing executives should not be viewed as just providing a temporary bridge to reach a particular asset target. The real survivors in the hedge fund shakeout will be those who position their UHFS as a partner of the firm so that their \$2 billion mountain of assets doesn't melt down to an insignificant puddle. ■

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