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## Is Your Firm's Story Good Enough?

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# Is Your Firm's Story Good Enough?

A marketing expert helps you tell. By Bruce Frummerman

**A**s one of the thousands of hedge fund firms in the marketplace you face a significant marketing challenge. Will you turn your firm into a brand or allow it to be thought of as a commodity? Known only by the investment style pigeonhole in which the marketplace fits its products and by its recent performance, the typical money management firm is perceived to be no more than a commodity. Such firms live and die on their numbers alone. Few money management firms are known for what should be the core element of their firm's brand identity: how they invest. Those who are have a marketing advantage over their competition.

Marketing is a major factor that impacts a hedge fund firm's ability to grow and retain assets. Marketing plays a key role in determining a firm's identity and in positioning it before the eyes of investors and advisors. When marketing is marginalized by a hedge fund, its ability to attract and retain assets suffers.

## What Investors Are Telling Hedge Funds

Attend a hedge fund conference or two and listen to what investors are telling hedge fund managers that, in addition to a good performance track record, they need from them.

A fund of funds manager says he won't invest if the hedge fund manager cannot clearly explain his strategy.

A family office CIO tells an audience of hedge fund managers that if the head of the family doesn't understand how a fund invests well enough to repeat its story to friend while they're out golfing, he won't invest.

A seeder investor, who says he looks for a hedge fund manager to be able to demonstrate that he is capable of running the business and not just running the fund, demands there be a well thought out marketing plan and

a cogent explanation of the investment strategy.

An angel investor says effectively talking the story in a presentation meeting is now more important than ever; a hedge fund firm better know its story inside out.

Sensing a pattern? Investors want more than just a page of statistical data to evaluate when considering whether to invest with a hedge fund manager. They want to know what his investment beliefs are. They want to understand, buy into and be able to repeat the story about how he invests.

Is your hedge fund, in its marketing, giving prospective investors all of the information they want for deciding whether or not they believe it is a defensible decision to invest with you?

## Two Parts to Marketing

There are two parts to a firm's marketing: sales marketing and communications marketing. Sales marketing (which is not the focus of this article) is about the process of selling to

prospects and their advisors. The job of a salesperson or team, whether in-house or third-party marketer, is identifying prospects, making contact, giving face-to-face presentations and managing follow up throughout the selling cycle for turning prospects into investors. But what is it that the target audiences are told? That's the job of communications marketing. While good communications marketing can't help improve your investment performance, it can help you have higher impact selling.

A firm needs a compelling and consistent storyline and language to use in its verbal and written contacts with clients, prospects and those who influence them; this is communications marketing.

Communications marketing is what is used to persuade people to

losing prospective investors to competitors that have products and performance similar to yours?

### Communications Marketing Challenges

Different firms face different challenges when it comes to effectively telling their stories. Here are but four examples of communications marketing challenges my firm has solved:

An 18-month-old, two man hedge fund with good performance was preparing for its first ever presentation at their prime broker's capital introduction event. The men were concerned that their long-short strategy was nothing special; they didn't know how to communicate what they did, other than saying they look at the screens all day. They said they

what he, the salesman, had initially told an investor about the fund's investment process.

A sales manager for a multi-factor analytics-based fund had trouble promoting the veracity of her firm's investment process. After making her presentation she often found herself stumped when asked to elaborate about elements of the firm's quant-based process that were not being kept "black box". This problem arose because she was unable to get a clear, detailed explanation from the portfolio manager about how they did their stock screening. As a result, she too frequently found herself having to respond to a prospect's probing queries by saying "That's a good question. Let me ask the portfolio manager and I'll get back to you." This did not engender much confidence in the eyes of skeptical prospects.

A one-man hedge fund, with no track record, was running what was at the time the most complex strategy on the Street: leveraged derivatives investing with a market neutral overlay. Neither institutional nor high-net-worth investors were familiar with the strategy. Consultants had yet to understand it. Prospective investors lacked a predetermined asset allocation into which this product would fit. Also, the firm's in-house salesman recognized that prospective investors, needing a comfort factor before they would invest, would first have to be educated about the range of derivatives securities to be employed and the foundation of the quant-based analytics system the fund would be using to guide its buy and sell decisions. The firm was struggling with the challenge of how to communicate all of this information without having a prospect feel overwhelmed by technical detail.

## How successful have you been in attracting investors who are not friends and family?

buy into the investment products a firm is selling and the process it uses to manage money. Everything from verbal sales presentations, marketing materials, quarterly letters to investors, to stories in the press are communications marketing tools.

Does your firm have an effective storyline for communicating the veracity of its investment process and the intellectual acumen of management? If you're not sure, consider these questions: How successful have you been in attracting investors who are not friends and family? Are you finding yourself

feared such a plain vanilla explanation would cause a skeptical prospect to think to himself, "My cat can sit in front of a screen all day, too; that doesn't explain anything!"

A 10-year-old, midsize hedge fund looking to recruit its first in-house salesperson was turned down by its first choice of candidate. Why? In the time they spent telling him about their fund he found that the co-managers couldn't agree with each other on how to explain how they ran the portfolio. The prospective salesman was worried that, in a round two meeting, one of the co-managers would contradict

### The Most Common Error

The most common communications marketing error we see made by hedge funds is telling an incomplete story.

While all hedge funds say something about performance, portfolio holdings and people at the firm, most underemphasize, don't explain clearly or leave out place and process.

Place refers to the context in which the investment should be viewed. (In cases where a prospect doesn't already have a planned allocation for a hedge fund's strategy, it's up to the hedge fund manager to explain his product's potential place within the prospect's total portfolio allocation.)

Process addresses how the hedge fund manager invests. After Performance, Process is the most important part of a firm's communications marketing story.

### Strengthening Your Firm's Storyline

For your hedge fund firm to strengthen its storyline, your management team needs to ask itself these questions:

- What should be our firm's key selling messages for educating and persuading people to understand and buy into how we invest?
- How can we best structure our storyline so that it's based on buyer-focused rather than seller-focused points?
- In what priority should we present our key selling messages in order to communicate a linear storyline that people can recall and repeat to a colleague or advisor?
- How should we position our fund in the investment marketplace in general as well as in contrast to our recognized competitors?
- Which parts of our investment process are we willing to make

transparent, which elements will we not reveal and how can we best describe a process that has some hidden steps?

- What sales language should we use, with consistency, in our verbal and written sales presentations and marketing materials?

### Regarding Compliance

Once you have your hedge fund's new story down on paper, make sure

## Some managers will not admit in public they have a hedge fund.

to review it with your legal counsel to confirm that it is in compliance.

Another compliance-related consideration is whether or not to speak with the press. Views are far-ranging among hedge fund managers about whether or not to speak with the media. We all know some fund managers with conservative legal counsel who will not even admit in public that they have a hedge fund. We know funds that are willing to be written about only in articles that appear on password protected web sites that restrict access to qualified investors and to other hedge funds. We know some hedge fund managers who are willing to appear in trade publications read by institutional investors, while others are willing to be profiled in *Barron's*. Then there are other fund managers who are willing to be quoted in more consumer-oriented press such as the *New York Times*. The press can play an important role in helping qualified investors learn about the intellectual acumen and the

investment beliefs of hedge fund managers. Discuss this issue with your legal counsel and decide what is right for you. If you plan to speak with the press, establish compliance-related ground rules with your legal counsel defining what your firm is and is not willing to talk about. Then, when you speak with an editor or reporter, remember to follow those ground rules.

### Acquiring a Brand Identity

Branding success for your firm is dependent upon your ability to educate and persuade people to be aware of, and buy into, the way you invest. Achieving this requires developing a cogent and compelling way to best tell your investing story with consistency, applying it to your sales marketing efforts and obtaining third-party endorsement for and increased awareness of your firm's investing process. [ai](#)

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