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It is perhaps unfortunate but true that hope is no substitute for planning in hedge fund marketing. Unless your fund sells itself, executing a well thought-out marketing strategy is central to building your business successfully. For many investors, momentum in asset growth is a key indicator of whether a team is worthwhile of consideration. The explicit goals of your marketing strategy must then be to build and maintain asset momentum.

Third-Party Marketers: Who Needs Them?

Marketing resources at your disposal include capital introduction groups, internal marketers, and external placement agents, a.k.a. third-party marketers (TPMs). While Cap-Intro groups can provide exposure to investors, they do not work for you, nor can they represent your firm. Internal marketers could be all you need, depending on the depth and nature of their investor network, as well as their personal skills. Whether to complement these professional assets with TPMs should be a decision based on a cost-benefit analysis that fits with your strategic goals. The following *LTCM* quadruplet simply frames this analysis:

- ***Leverage***: Is your investment team extracting sufficient leverage from internal marketers, enabling maximum dedication to research and trading?
- ***Timing***: Are resource constraints delaying your marketing to certain investor segments? What is the associated implied risk and opportunity cost?
- ***Coverage***: What investor segments are logistically difficult to solicit effectively? How will you cover these?
- ***Momentum***: Is your firm seeing sufficient asset-growth momentum to achieve its financial and operational objectives?

If answers point to a marketing deficit, using a TPM is a make-or-buy decision. Can you afford to build-up your marketing team in target markets? Find qualified hiring candidates? Manage staff additions efficiently and effectively? Handle the compliance issues associated with soliciting targeted investors?

On this last question, note that if internal marketers are U.S.-based or solicit U.S. investors, and their compensation is linked to success, they are

probably acting as brokers under U.S law. Unless they operate through a broker-dealer, you may need a private-label broker-dealer agreement, whether or not the brokerage also acts as a TPM for your funds.

Having carefully scoped your needs, you are in a better position to select a TPM that is right for your firm.

TPM Selection: What To Look For?

Without attempting to seek out TPMs, your writer has come in contact with over 80 distinct TPM firms worldwide this past year alone, probably only a fraction of those in existence. Their business models range from acting as exclusive marketing partners for a handful of managers, to mass-mailing blind performance statistics hoping to elicit investor enquiries.

Therefore, besides a fit with cold strategic objectives, key attributes to look for in a TPM include a meeting of the minds on issues of business management, client relationship management, compliance and professional ethics. On your selection checklist should figure questions such as:

- ***Coverage:*** Does the TPM cover a sufficient number of investors in your target markets? How will new investor relationships be found and developed? Does success look statistically probable?
- ***Credibility:*** What image will the TPM project to investors? Would you be replacing a manager recently “dropped” by the TPM? A common criticism from investors is that TPMs have no “skin in the game”, because they can simply stop representing a manager, while claiming that all is well since they have found another, better manager that investors should consider. Therefore make certain you understand why managers have or have not worked out in the TPM’s past.
- ***Execution:*** How will the TPM work with your team day-to-day? How much time will he devote to your fund? Where and how frequently will road-shows be organized? What is the expected sales process from first contact to money-in-the-bank? What reporting will the TPM provide to your team?
- ***Competence:*** How does the TPM propose to keep current with your business, including new staff, strategies, trading and portfolio issues?

- **Conflicts:** Does the TPM currently represent funds with similar strategies? How will conflicts of interest be handled?
- **Compensation:** Are the TPM's fees and expenses reasonable? Some TPM require retainers –from \$10,000 to \$75,000 is not uncommon- and/or exclusivity. Most require a 10% to 30% share of ongoing fees on capital raised, or an ongoing flat percentage of assets raised.
- **Compliance:** Is the TPM knowledgeable about, and sensitive to regulatory issues? If U,S,-based or soliciting U.S. investors, is the TPM a registered broker-dealer?
- **Culture:** Does the TPM's staff get along with your team? Do not underestimate the importance of personality fit. You are not getting married, but you are embarking on a possibly long-term, public relationship that involves daily interaction between you, the TPM and investors.

Setting Up For Success: Right Expectations

Most important to understand and accept is that TPMs do not produce miracles. Most TPMs cannot "make their investors invest", unless they advise private clients. Professional investors have their own investment processes and guidelines. Receiving allocations requires time, client skills to ensure a fund remains on the relevant radar screens, and good timing for the fund to coincide with an investor's needs.

So what can a TPM really do for you? You should think of a TPM as a senior marketing partner, working hand-in-hand with your team. "Qualifying investors", i.e. bringing to the table suitable investors that have the need and cash for your strategy, can be a full-time job. A TPM's batting average will typically be in the low single-digit percentage points. He will spend time, effort and money cultivating several hundred investors to receive ongoing allocations for your fund. His most valuable assets are the extent of his investor contacts, maturity, resourcefulness, client handling skills, and time.

Over time you will begin to see a flow of investor enquiries, meetings, and eventually allocations. However a sales force cannot be better than the product. You need to be realistic about how competitive asset raising is, keep performing, and keep building your business infrastructure.

The View From The Other Side: What TPMs Look For

TPMs usually look for credible investment and business managers with which they can build a long-term association. While some TPMs will work with managers that seem to call in as a last resort, most do not view themselves as white knights for managers in distress. Indeed TPMs are economically viable enterprises only if they raise money *and* the manager performs significantly above his peer-average.

There are many tell-tale signs that a manager has not seriously considered how to work closely with a TPM. One of the most common signs is a manager's request that the TPM introduce "only his most solid relationships". The latent implication that the TPM can greatly influence investment decisions, and that "solid relationships" would naturally need this manager's services, is a mix of extrapolative retail thinking, over-confidence in the manager's own indispensability, and naïve appreciation for the competitive nature of asset raising. This is typically when your writer stops listening.

Tips On Finding TPMs

Most TPMs will call on funds-of-funds worldwide. When speaking with FoFs, ask what TPM they know or like. Lawyers active in hedge funds are other sources, as they have probably worked on TPM contracts. Finally, hedge fund industry web sites often include a "Service Provider" section, where TPMs register their contact information.

The Bottom-Line

Marketing matters. For most managers, raising assets is a lengthy, time-consuming, competitive process. Planning and executing a marketing strategy is expected of good business managers. Whether or not you hire TPMs, make sure your marketing strategy delivers. If assets do not grow, the rest may not matter much.

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