Marketing Your Fund: A Primer

The primary marketing challenge for the alternative investments industry is finding the sales and marketing expertise required to realize capital inflows. Compounding this issue is the SEC and FINRA regulatory landscape: it is morphing at a time when institutional alternative investors are re-evaluating investment strategies and reshuffling portfolios. These dynamics require fund managers to review and recalibrate their sales and marketing strategies and tactics.

The three main questions on fund managers' minds are:

- What is the current fundraising environment?
- How are firms raising capital and rebuilding their investor base?
- What must firms do to prepare and execute successful fundraising campaigns?

Fundraising is not a one-time event. In fact, it must be an integral and ongoing part of every firm's business strategy to validate a fund's model, and to ensure profitability and growth. Practically speaking, fundraising ebbs and flows at most firms, but it should never be far from your firm's collective conscience.

Thousands of hedge fund managers are currently seeking allocations; yet, many do not know what it takes to execute a sales and marketing campaign. The quest for raising capital from alternative investors comes under the umbrella of sales and marketing, and like it or not, sales and marketing are professional jobs that take years to learn and perfect.

The Fundraising Environment

Back in the days of yore, a high-flying manager could be discovered by investors. And if the manager had the right performance numbers and a compelling story, investors would make an allocation. The whole due diligence process was often completed in a relatively small amount of time, typically three to six months. This was passive fundraising. The investor relations staff had only to answer the phone to raise capital.

Active fundraising didn't require much more effort. Times were good. When managers wanted to raise capital, they could call upon their stable of investors and ask them to increase their commitments. Those days are long gone. The paradigm has shifted. No longer are investors coming in over the transom, and the financial crisis caused many stalwart, dependable investors to leave funds. Today, managers looking to raise capital must "go outbound" and find investors that are a good fit for their strategies.

Unfortunately, this change comes at a time when raising capital has never been more urgent. Most firms, regardless of their place in the market, face the same problem: their assets have dwindled to record lows. The economic downturn caused many investors to request redemptions, significantly reducing the assets under management at most firms.

Transition Creates Opportunity

Although fund managers are scrambling to replace assets and find new investors, they are not the only group in transition. Alternative institutional investors are also undergoing a huge change. They are rethinking past strategies and reshuffling their portfolios.

This dynamic has created some problems, but more importantly, it has created opportunities. Investors are open to talking with fund managers they declined to speak with in the past. Investors are also examining strategies that previously were not on their radar screens.

At the same time, investors are echoing the same message to fund managers: You must scrutinize your performance, show a good track record for more than nine to twelve months, engage us in a vigorous dialog, and let us vet the executive team. Only then will we seriously consider your fund.

Things have changed.

Although much money is still on the sidelines, BHA investor data shows that allocation distribution is trending upward. A recent phone survey of 100 fund managers revealed that 33 percent had secured allocations or were in the process of receiving capital.

So how do managers go about raising capital and rebuilding their investor stable in this new environment?

Think Differently, You Have No Choice

Going outbound is the new modus operandi. However, outbound marketing and sales are their own distinct universe. If you do not know this, believe it to be true.

Outbound marketing and inbound marketing couldn’t be more different. It is safe to say the two are like night and day. It would take a separate White Paper to describe all the subtle differences between the two, but here’s a core nugget. The investor relations staff or marketers that used to screen incoming calls and identify the cream of the crop are not the folks to make the hundreds of outbound calls per week that are necessary in this environment.

Inbound marketers are not familiar with the incredible effort it takes to vet a target list of investors. They don’t know how to speak with a cold prospect. They are not used to making 10 to 15 calls and receiving only one back. And they don’t know how to set up conference calls and road trips with prospects.

When the alternative world changed, so did the job descriptions of the investor relations and marketing staff. Inbound and outbound are two distinct marketing styles. Each attracts certain personalities and requires special talents. It is imperative to adjust to the new paradigm if your firm is going to successfully raise capital.

First Things First

If you are considering launching a fundraising campaign—or are in the throes of one—how you go about it will determine your success. One of the most important facets to grasp is that sales and marketing take money, time, and commitment.

The first big hurdle many managers must clear is accepting the old adage, “it takes money to make money.” Every manager needs to budget the dollars necessary to prepare a fundraising campaign.

The second is that raising capital today takes a minimum of nine to twelve months. Managers must come to grips with the fact that investors want to observe a fund's performance for several quarters and establish not only a compelling dialog but also a relationship with a firm's major players.

The third hurdle is that continuous fundraising is a firm-wide commitment. From the top of the organization to the bottom, every employee must buy in. This can happen if you choose an effective fundraising leader—someone who can not only communicate the importance of this effort up and down the ladder but also can win everyone's support.

Many firms have a full-time professional who heads investor relations or marketing and can lead this effort. However, as noted earlier, this is usually not the same person that led your inbound marketing efforts during better times.

If your firm is not big enough to afford a full-time marketer or investor relations manager, then one of the partners must fill this role. How do you determine who is the best candidate to represent the firm to potential investors? Ask this question: Which partner can best explain who we are and what we do in a cogent, lucid, earnest, and succinct way?

After you have designated a leader, he or she must assemble a team. A marketing team is like any other team: each player is assigned a position and is expected to know the play book and execute. It takes teamwork to win. In the new outbound sales and marketing model, the team often includes outsourced firms.

The bottom line is, someone has to take responsibility for raising capital and the rest of the firm must fall in line and support the effort.

It's the Data, Stupid

The first task the marketing team must tackle is to decide which investors to target. At the top of the list should be the investor categories with which the firm has been successful in the past. For example, if pensions and endowments have been the firm's sweet spot, determine if they are still viable prospects. Then the team must ask if there are additional investor categories to consider. Perhaps now is the time to seek a new type of investor, such as family offices or (registered) investment advisors.

After the team has agreed on one or more categories to target, the next task is assembling a target list.

The first place to look is in-house. In-house investor lists typically are an amalgamation of spreadsheets, Microsoft Word documents, e-mails, and other disparate files and databases. They are a mix of personal and company contacts. They may even include some third-party lists bought haphazardly over the years. Usually, all these lists have been gathered but not maintained by the in-house marketing staff.

Many marketers assume that because they have these lists, they have the basis for a fundraising campaign. This couldn't be further from the truth. Nothing creates outdated lists faster than market churn—which there has been a lot of in the past few years. Considering all the changes in the alternative industry caused by the financial crisis, this data must be viewed as circumspect.

Some marketers attempt database triage on in-house investor lists but quickly abandon the effort, electing to start from scratch and purchase a list. They believe that this will save them time, money, and much frustration. But the opposite is often the case.

Many investor databases come in two forms: out of date and very out of date. In fact, it is challenging to find a source that provides accurate phone numbers, no less the types of managers and strategies investors are seeking. Calling incorrect numbers, reaching the wrong people, and chasing companies that have long gone out of business stymies phone campaigns; large numbers of bounced messages derail e-mail marketing efforts.

Successful fundraising campaigns target investors whose interests match the firm's product offerings. For that you need current and accurate investor and mandate information.

Thus, the adroit marketer takes a two-pronged approach. Knowing that there's probably some gold buried in the in-house data, he or she will vet these lists. It can be a gargantuan task and push out the launch date, but the smart marketer knows there's no getting around it. In addition, he or she will investigate third-party sources, doing the research necessary to find the list and database providers that update their information frequently.

Then the marketer assembles a current database that combines the best targets from in-house sources with a solid third-party list. Starting fresh is a good way to begin a campaign and put processes in place that are necessary to maintain a current database.

Keep It Simple

After the database is in place, you can begin to formulate plans on how to use the investor profiles. Much of what follows may sound obvious, however, sometimes simple marketing concepts get lost in the hubbub of arranging investor meetings and getting new money in the door.

Typically, it is best to divide the master database into two lists of investor targets. The first contains the low-hanging fruit: the obvious fits, the strategic fits, and the no brainers that the marketing folks know how to sell based on those they have sold successfully in the past.

The second list is comprised of new investor candidates—prospects that your firm has not approached before. These may be new investors or investor categories that you feel are good fits based on their profiles.

When you have the two lists, choose a method for selecting investors to contact. Location is the best method. Which investors are a walk, car ride, or short plane trip away? This is where you should concentrate your efforts. This may seem an obvious approach from a logistics perspective, but there is another reason. In this new era, it is important for as many executives as possible to hear what investors are saying. If investors are close by, it will be easier to sign up executives for the meeting. Their understanding of investors will be crucial in developing the ongoing marketing strategy.

Ingredients for a Successful Campaign

Have you hired a professional marketing firm to hone your corporate messaging, branding, market positioning, and value propositions? Have you allocated funds to create your marketing materials? At a minimum, every fund manager should have a tear sheet, a pitch book, and a monthly performance letter. This collateral is absolutely necessary and the ante into the game of fundraising.

In addition, you must budget to fund an ongoing market campaign that includes travel, purchasing lists, subscriptions to investor database services, investor road trips, and attending seminars and industry events. To raise money you have to spend money.

Of course, you can decide to do all the above on the cheap, including producing the collateral yourself. Many firms do this—and they learn some very valuable lessons the hard way.

The first and biggest lesson is that they are not effectively competing with their peers that have made the investment and done it right from the get-go. The second is that they wasted time being marketer, graphic designer, and content generator. And last but not least, they realized that their campaign created the wrong impression in the minds of target investors.

The competition for alternative investment dollars is stiff. An investor today receives 100 unsolicited emails and 100 unsolicited phone calls per week. To differentiate yourself from all the “noise,” you have to be spot on.

Additionally, marketing collateral is a direct reflection on the ownership of the firm. Your firm’s commitment to fundraising cannot appear frivolous, cavalier or, even worse, novice. Investors want managers who are savvy and understand that every aspect of their firm will be intensely scrutinized and the management team’s professionalism is as important as fund performance.

Fundraising Campaigns Are Dynamic

You have your goals, your plan, and your materials. As soon as you launch, something will change. Guaranteed. Do not despair; it is the nature of the fundraising beast. Learn, adjust, and continue on.

If you fall short of your campaign goals, regroup and set new milestones. If you discover a problem with your plan, rework it. And if investors raise questions not covered in your pitch book, revise it.

Too often marketers make the mistake of adhering to the same pitch, investors after investor, despite clear signals that it is lacking in some way. Your pitch book is a work in progress. If investors ask the same questions over and over, change your presentation so it addresses them in future meetings. The fundraising team must be open and ready to change tactics and try new things. The pitch book should evolve along with your marketing campaign. It is part of understanding and adjusting to your market.

Investors want to see how firms work month to month and quarter to quarter. They expect managers to report not only historical performance but also forecast monthly and quarterly goals. Firms’ victories and defeats will serve as a barometer of the executive team’s experience and proof of their strategies.

Managers that are able to build a sustainable relationship with market-weary investors will attract investors. Managers that are able to learn from mistakes and adapt in real time will secure allocations. Investors on the whole are a forgiving group as long as the facts are on the table and all assumptions and rationales are vetted. They will not tolerate doubletalk when it comes to explaining good or bad performance numbers.

Marketing Is a Numbers Game

Here is a rule of thumb for direct outbound marketing: 1,000 targets (good, clean targets) yields 100 leads, which produces 10 qualified leads, and generates one to two deals. If you purchase a list with 1,000 names, and 20 to 30 percent of the data in a list is inaccurate, your marketers are in a no-win situation. According to these direct marketing statistics, they do not have enough prospects to call to make a sale.

Here is another fun fact. People fail in fund marketing because they do not follow-up. A study published by Herbert True, a marketing researcher at Notre Dame University, noted the following:

- 44 percent of sales professional quit trying after first call
- 24 percent quit after the second attempt
- 14 percent quit after the third call
- 12 percent quit trying to sell a prospect after the fourth call

This means 94 percent of sales folk quit before the fifth call, which is ironic because 60 percent of all sales and sales connections are made after the fourth call. Mapping this report to the practices of your own in-house marketing team may mean life or death for your fundraising efforts. The overwhelming majority of marketing professionals don't give themselves a shot at selling their own product.

In short, the two main reasons why firms fail to raise capital are bad data and inadequate follow up.

Summary

The fundraising game has changed. In today's environment, raising capital must be an integral and ongoing part of a company's business strategy. Unfortunately, many senior executives remember a time when performance was the only thing that mattered. Indeed, many investors came to high-performing managers with their checkbooks in hand.

Those days are long gone. If your firm is navigating the future by looking at a historical map, you will not be successful. Worse still, if raising capital is not at the top of your corporate agenda today, you will be playing catch-up tomorrow. And that will be an even bigger drain on your firm's human and capital resources.

Continuous fundraising is a big commitment. First and foremost, it takes time and money. Then there is the execution and follow-up. However, while many investors are still on the sidelines, they will not be there for long.

Now is the time for managers to jump-start outbound marketing efforts, find investors that are fits, engage them in a compelling dialog over three to four quarters, and provide them with collateral materials and reports that help them understand your operations.

Managers that recognize the rules have changed and react proactively, will successfully raise capital and rebuild their investor base.