

## CHAPTER 4

# Researching the Investor Universe to Identify Prospects

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*Two and a half years ago, I began cold calling for Brighton House Associates. I was given a list of firms, and I was to find each company's phone number and the appropriate contact, and then connect with that person. It seemed straightforward, so I jumped in.*

*I found it usually took me ten to fifteen calls to connect with someone. And my hit rate was low—1 to 2 percent of the companies on my list turned into prospects. But I believed it was strictly a numbers game—the more calls I made, the more prospects I'd get—so I persevered. Every morning, I started at the top of my list and worked my way down during the course of the day.*

*I did this for about six months. Then I began to think there had to be a better way. More out of curiosity than anything else, I began Googling and researching the firms before calling them. Then I began Googling and researching the person I hoped to contact. I found that a little background information went a long way on a call, so I dug deeper.*

*I researched the target firms' competition, searched for contacts on LinkedIn, and created a profile form where I tracked all the information I found. Not only did my calls with targets become more productive, but*

*when I left voice mail, I was able to leave messages that resonated. The day someone called me back, I knew I was on to something.*

*As I researched names on my list, I also found new names to add and I became more creative in my sleuthing. For example, one day I came upon the name of a person at a family office. I had an e-mail address and the firm name, but I had no phone number and no address. There was no website. Where should I start?*

*I decided to look up the domain name. Sure enough, I came across a domain registration form, which had the firm's address. I Googled the address and found the building directory online. What luck! I looked through the list of companies. Nothing. The name of the family office wasn't listed. But the name of another company rang a bell. I checked it out and my hunch was right—it was the name of the company that was sold, the event that spawned the creation of the family office. I noted the number of the company and made the call. My contact's first words were, "How did you ever find me?" We had a great conversation and the office became a prospect.*

*The moral of the story is simple. Cold calling is a numbers game, but researching targets improves your odds. The research can be time consuming and tedious, but it also can be creative. And it certainly is more rewarding. Not only has my hit rate improved to 5 to 10 percent, but I also enjoy cold calling a lot more.*



A \$50 million hedge fund is looking to aggregate assets, so it spends weeks calling university endowments and U.S. government pension plans. An established \$750 million hedge fund wants to expand its long-term investor base and grow its fund to \$2 billion, so it diligently pursues funds of funds. Both are actively marketing their funds—and frustrated because they are getting nowhere.

Identifying the most relevant investors for your fund is the single most important aspect of fundraising. Yet many managers don't take the time to do so. Like the funds above, managers often buy a list and start dialing, without considering that government pension plans won't

evaluate a small hedge fund, funds of funds aren't a source of stable and reliable capital, and numerous other nuances about the alternative marketplace. So they spend a lot of time, money, and energy contacting the wrong investors.

There is nothing more instrumental to a successful marketing campaign than a good list. A good list is one that has the types of investors who are a fit for your fund. To know who your potential investors are, however, you have to know who you are—who you are now, and who you want to be in the future.

If you are a fairly new fund that is seeking allocations of \$1 million to \$5 million and beginning to build up your business, funds of funds and family offices are good places to start. These investors are more apt to invest with emerging managers, and typically make smaller allocations.

If you are an established \$1 billion fund that has a long track record, larger institutional investors such as pensions and endowments are your best bet. These investors usually seek funds that are reputable and have an extensive infrastructure. Also, they make much larger allocations, typically \$15 million to \$50 million. Because they often do not want their investment to represent more than 5 percent or 10 percent of a fund's portfolio, they seek managers with significant assets under management.

If you are a mid-sized fund looking to grow, the playing field is even larger. Most types of investors will consider a fund your size. That's the good news. The bad news is that narrowing the field to find your best targets takes a bit of work.

Countless alternative investment managers waste time and resources trying to get in front of the major players. These include endowments such as Yale, Harvard, and the University of Chicago; pensions such as New York State, CalPERS, and CalSTERS; and notable private wealth management firms. However, because of their size and requirements, they are not realistic prospects for many funds. In addition, everyone is trying to get in front of these investors, and frankly, they have hundreds of funds already in their pipelines. The odds of getting an audience with these investors are not in your favor.

A better strategy is to determine the investor categories that are right for you. Then pursue the smaller or lesser-known investors in that category who are not in the spotlight, but who actively allocate. Research the boutique family office in Cleveland that dedicates \$75 million of its \$500 million portfolio to hedge funds, or the \$150 million fund of funds in Minneapolis that annually adds two or three funds to its portfolio. They are not receiving as many calls and may be excellent prospects.

## Sourcing Potential Investors

So how do you find the investors that are right for you? If you consider the thousands of databases that claim to have the most relevant and timely data on active investors around the globe, there are countless ways to source potential investors. However, your own contact list that you've developed through networking events, conferences, and lists traded with peers is usually a better source. The best list, of course, is one that is handcrafted.

It is often worthwhile to build a list of firms that are not on everyone's radar screens. Usually, there is a reason why these investors are not well known. Sometimes it's because they want it that way. Other times, the firms are relatively new. If firms are purposely private or so new that they don't have a website or listed address, how can you find them?

The most impressive sources for identifying new targets, or targets that are less well known, are social and professional networking sites such as LinkedIn. These sites are almost unmatched by any other source, mainly because the investor profiles are actively updated and managed by the investors themselves.

The financial crisis drastically changed the investment community. Firms have closed, teams have been spun off, and people have moved from company to company. It is nearly impossible to keep up with the shifts in the alternative investment space. The beauty of social and professional networking sites is that as investors change firms or join new teams, they update their profiles. Obviously this process is completely

arbitrary, and its timeliness depends on how diligently individuals update their status. Nonetheless, they are still some of the finest sources available.

Let's take LinkedIn as an example. There are many ways you can search for prospective targets on LinkedIn. I generally start broadly and gradually narrow my search. I begin by typing in keywords such as "family office," "hedge fund analyst," or even "manager selection." That instructs LinkedIn to search through all the profiles in its database and look for those keywords. Sometimes I add an industry search, which allows me to pick specific industries such as "investment management," "financial services," or "investment banking." You'll find LinkedIn does half the work for you, in that it orders the list of people by how relevant their background is to your specifications. Some low-hanging fruit is typically within the first few pages, with more challenging targets following.

Sometimes you are lucky enough to find all the information you need in an individual's LinkedIn profile: the firm's name, website, phone number—even some background on the firm, and how actively it invests in the alternative space. Other times, all you learn is that the individual is an investment analyst for XYZ Family Office in New York. Don't get discouraged, get creative.

I exhaust every outlet before walking away from a potential target. For example, recently I found the perfect target on LinkedIn. He was the CIO of a Philadelphia-based single-family office with \$700 million under management. In his profile he went so far as to disclose the name of the firm and that he was in charge of fund manager due diligence for the investment portfolio. The problem? No website, no phone number, and no other employees listed.

So I typed the name of the firm into Google. Nothing. Now what? Well, I had his name, so I did a Google search on him. All that came up was his LinkedIn profile. I spent the next hour trying to find his phone number and got nowhere. Then it came to me: I know the name of the firm and I know it's based in the Philadelphia area; let me try 411. I went to 411.com, typed in the name of the firm and the region and *Presto!* I got an address and a phone number.

Persistence is the key to building a target list. I rarely give up, and if I do, it's only temporary. If I feel like I've exhausted all possible avenues, I'll give it a rest and look for another target. But I never abandon my search for long. A few weeks later, I'm back on the case—and this time I'm usually successful. All it takes is a little creativity and determination and you can compile an excellent list of potential investors. This is the most critical step in effective and efficient fundraising. It is worth the time and effort.

## Drilling Down

After you have aggregated a large list of potential targets through a handful of sources, the next step is to find more information. It is important to understand who each target is in order to prioritize your efforts. It's also important to understand the MO of each investor before picking up the phone. Knowing the backstory of each target will help streamline the conversation.

So first things first: What type of investor is the target? Is it a family office, registered investment advisor, consultant, pension fund, foundation, endowment, fund of funds, or some other category? Knowing who they are will help you to plan your attack.

Next, determine if the firm is well known or a diamond in the rough. If you're trying to get in front of a multibillion-dollar multi-family office with hundreds of clients, there are probably a dozen or so people who would be good targets. However, if you have identified a small, private investment firm that has four or five employees, there is only one, maybe two, associates in charge of fund selection.

Now, do your targets invest in hedge funds? If it's a family office, especially a fairly large one, odds are it allocates a significant portion of its portfolio to hedge funds. If it's a \$500 million pension with only 2 percent of its total assets dedicated to hedge fund investments, odds are it only invests in one or two hedge funds at a time.

After you have determined the type of investor, the appropriate contact, and if he or she invests in hedge funds, find out the allocation cycle. Each institution has its own allocation cycles. For instance, funds

of funds are always evaluating and monitoring hedge funds for potential consideration, regardless of whether or not they are actively allocating. Pension funds and endowments, on the other hand, generally set an allocation timeline every year, which they follow until the mandate is satisfied. Family offices typically maintain a significant cash reserve and can allocate under short notice. What is the allocation cycle for your prospect?

Finally, understanding the role of the person you have identified at the target is also very important. The people you want to talk with have titles such as senior investment analyst, director of alternative investments, portfolio manager, analyst of absolute return strategies, CAIA, or CFA. These folks, especially when associated with institutional or accredited investors, typically are a good place to start. It is paramount when trying to execute an effective marketing campaign that you dedicate your time and resources trying to connect with the right individual. There is nothing worse than spending four months trying to reach someone only to find out that he or she is not the person you need to talk to.

## Get Personal

Now that you have identified the firms you are going to target, as well as the individuals, it is time to learn more about each person before dialing the number. Understanding each person's background and path to the present position is important. In the alternative investment community, everyone knows everyone, or at least knows somebody who knows someone. Doing a little bit of research on your target could dramatically increase your chances of reaching him or her. For example, one of your current investors may have gone to school with one of your targets or your managing director may have worked with him or her at another firm. Connections such as these can get you in the door and give you an edge. So it's worth the time and effort to conduct some due diligence on each and every target you have in your sights.

It is also important to determine the length of time a target has worked at the current firm. LinkedIn tracks the amount of time each

individual has worked in the most recent position. If I have two contacts at a target firm, sometimes I go after the person who has been there less time, especially if he or she has been there a year or less. These individuals tend to be more willing to take a call and more open to receiving information, chiefly because they are new to the firm and want to show their value. Of course, if a more senior associate is a better target in terms of position and job duties, I will pursue that person. Sometimes more senior folks are able to say more definitively if they're interested or not.

Understanding the pedigree of a firm can also play a key role in identifying good prospects. For example, if the patriarch of a family office made his fortune in oil and gas, chances are the firm probably invests in funds that are linked to natural resources. Doing the extra leg work and researching the target will set you up for a more relevant and comprehensive conversation.

## **Making the Calls**

Now it's time to prioritize your targets and start reaching out. You can organize your list by your knowledge of investors or past relationships. You can also do it by investor category, size, or location. In most cases, the latter makes the most sense. Depending upon the extent of the investor's due diligence, the greater the distance, the more expensive it will be to secure an allocation. Some investors think the same way. If you are a \$150 million hedge fund based in Greenwich, Connecticut, for example, the odds of making some serious headway with a registered investment advisor in Saudi Arabia are slim to none. A better place to start would be with the \$550 million multifamily office based in Chicago; it's close enough to Connecticut and easy to get to.

The next course of action is to build a solid, cohesive, and direct approach for your pitch—one for contacting investors by phone and one for e-mail. Anticipate that you have 30 seconds to convey your message, pique their interest, and keep them listening. These folks are busy, and they don't have time for a pitch full of stutters and pauses. Keep it simple, keep it tight, and keep it concise.

When you have your pitch down, decide if you should call or e-mail. I will let the other authors go into the details of contacting investors by phone and e-mail, but I will say this: I prefer making a phone call over sending an e-mail. You can convey an enthusiasm and a personal touch when speaking with someone by phone that is hard to do in an e-mail.

When you contact potential investors, it's important to be diligent, but not annoying. I call it being professionally persistent. I have found that even when prospects are a perfect fit and are truly interested, more often than not they have so many balls in the air that they don't have the chance to follow up regularly. Therefore, you must take control of the situation and be persistent in order to stay on their radar screen. Remember: the early bird gets the worm; the squeaky wheel gets the oil.

There are many intricate aspects to orchestrating a successful marketing campaign, and fundraising, when done incorrectly, can seem a most grueling task. But if you take the time beforehand to identify and understand the most relevant investors for your fund, you will greatly increase your chances of raising capital.



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