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Cost of Keeping Up With Investors

BHA estimates that there are 20,000 fund managers in the alternative investment arena. That includes hedge funds, private equity and real estate funds, and related funds of funds. In addition, there are about 50,000 institutional investors, including advisors, consultants, and family offices. Extrapolating this data to the entire industry, BHA estimates that there are 250,000 participants, which is an incredibly small number given the trillions of dollars it generates.

Yet despite the industry's small size, fund managers are finding it difficult to source investors and investors are having an even harder time finding managers. One reason for this is strict government regulation. The SEC prohibits fund managers from advertising their products and has strict guidelines on how to go about soliciting business. Another reason is the recent economic turmoil. The financial crises have caused employee turnover, firm downsizings, fund closures, and the discontinuing of some products and the launching of others. Alternative investments used to be an industry in which everyone knew everybody and what they were doing. That is no longer the case today.

Consequently, fund managers have shifted to outbound marketing to find investors. "Non-Action Letters" posted by the SEC indicate that formal introduction meetings have been blessed as long as they are attended by a licensed fund manager and an accredited investor, and followed by a 30-day waiting period. To launch such a phone or e-mail campaign, managers have typically purchased one or more of the approximately 600 commercial investor contact databases or tried to navigate through the more than 10,000 free spreadsheet lists that pass from firm to firm, friend to friend or through social media sites on the Internet.

Unfortunately, these databases that track industry players are woefully out of date. In addition, they are strictly contact databases; they do not contain investor mandate information. Mandate information is what the alternative fund manager strategies that an investor firm has "mandated" as targets for investment dollars. In general, this fund mandate is the type of manager and strategy as well as the fine grained details such as transparency, lock-up and other conditions of investment. Since this level of data is not typically available in a contact database as a result, fund managers are conducting blind marketing campaigns. The result is that investors are getting inundated with "requests for introduction." Investors tell BHA that they are receiving approximately 100 cold calls and 100 unsolicited e-mails every week. These ineffective phone and e-mail campaigns are not only consuming managers' valuable resources but they also are creating a lot of noise for the investor.

The key question, then, for a fund manager is:

How do I find fresh, accurate alternative investor data today?

Or, more to the point:

How do I find investors that want my type of strategy?

The fact is, investors are no longer chasing down fund managers, which means managers must pursue investors. However, as many fund managers have discovered, the typical direct marketing hit rate of 1 to 2 percent applies to outbound marketing: make 100 phone calls, or send 100 e-mails, and receive 1 to 2 replies. Used to receiving calls rather than making them, fund marketers are at a loss for how to improve their response rate.

The BHA Solution

There are three main reasons why outbound marketing campaigns suffer from low hit rates: inaccurate data, lack of pertinent information, and insufficient support. BHA's service provides a solution to each of these problems.

Data Update. Many fund managers' internal contact databases are out of date. Inaccurate phone numbers, contact names, and addresses litter the database. As part of the BHA service clients can solve this problem by giving their databases to BHA for scrubbing.

Using a special algorithm, BHA compares the contacts in a client's database with its own. Usually, 70 percent of investor firms listed in a client's database are also in BHA's. However, BHA's data for each firm is more recent. Therefore, BHA transfers its information to the client's database. The remaining 30 percent is updated by BHA analysts.

In addition, BHA searches its database for investors that might be a fit for the client and adds those "net new" contacts to the client's database. Clients not only receive an updated internal database but also one that contains new, qualified prospects. This typically doubles the number of target investors on clients' lists.

Mandate Database. Key to successful marketing is fresh, current, accurate investor prospect information. This is the main reason BHA clients subscribe to and use the BHA mandate database for their outbound marketing campaigns. BHA investor profiles are refreshed every 90 days and contain pertinent investor information. Clients using BHA's database report a 3 to 5 percent—and sometimes as high as a 10 percent—hit rate (getting a call returned or a meeting scheduled), because the prospects they are calling have expressed an interest in their strategies. BHA analysts never pitch or spin a fund when conducting the alternative investor interview. All the BHA analyst does is conduct an interview learning about who in the firm actually "owns" the alternative investment mandate and what type of manager and strategy they currently looking for. The BHA analysts asks relevant

appropriate mandate questions, listen to the answers and then report on what the investor has told them by writing up an investor mandate profile. This investor mandate profile is deposited into the BHA investor mandate database and this is what the fund manager subscribes to. It is very helpful to the fund manager because essentially the fund manager can find investors that have told BHA that they are looking for managers precisely like them!

Dedicated Research Analyst. Crucial to fund managers' ability to find investors is a support staff. BHA clients receive the help of a dedicated research analyst for back-office marketing support. Analysts help clients prepare for road trips, generate leads, and update investor data.

BHA's Core Value

BHA assumes the time-consuming, laborious task of compiling and maintaining an investor mandate database for fund managers. This is the primary value BHA provides to clients. Our 25 in-house research analysts have been updating records every day for three years and have gathered the following data on the process:

- It takes 20 to 30 minutes to properly vet each investor's Web site and find a starting contact.
- It requires approximately 10 to 15 calls to reach the contact person to validate his or her contact information and then have him or her provide the names of the people who handle various alternative investment mandates. This person is known as the "primary contact" because they own the mandate inside the investment firm.
- It takes about another 7 to 10 calls to speak with the primary contact that owns the fund mandate and interview that person to determine the firm's or organization's search criteria and mandate information.
- A mandate is written up in the form of a profile and entered into the database that BHA sells as part of a service to our fund managers.
- Follow-up calls must be made every 90 days to confirm or change investors' contact and mandate information. This typically requires 3 to 5 calls to reach the contact and approximately 5-10 minutes to receive an update.

All in all, it takes an average of 90 minutes or so per year to maintain a single record in a database.

How to Determine ROI

Fund managers can determine their return on investment in doing business with BHA by simply looking at the time it takes to update information on a particular alternative investor. After tracking 25 analysts' time, BHA knows that it requires about an hour and a half of a staff person's time per year to maintain a single database record. If you have 750 records in your in-house investor database, *it will take 1,125 man-hours, or a little over 140 days, to keep that list of contacts up to date with current e-mail addresses, phone numbers, and strategy/mandate interests.*

However, updating an investor database is not only a time-intensive process. Having highly paid staff gather and enter the data also makes it a very costly process.

Some fund managers try to increase their marketing ROI by subscribing to several commercial contact databases. Unfortunately, this does not save time or money. Commercial contact databases are typically 12 to 24 months old; in-house staff still must update inaccurate profiles, which are rampant in these databases.

Additionally, at best, contact databases have the first contact to call but have not established who the primary contact is for mandate data, what type of manager the firm is seeking, or what type of strategy they are interested in.

Many marketing budgets are being spent on commercial contact databases; this money would be better spent on an investor mandate database such as BHA's. Investors in BHA's mandate database have been identified, interviewed, and vetted. As a result, fund managers' sales, marketing, and investor relations personnel can focus on setting up conference calls and meetings rather than scrubbing out-of-date data.