

Marketing Hedge Funds

How to Start and Grow a Successful Hedge Fund in Canada

by Julie Makepeace, Alliance Sales and Marketing

At the outset, it is important to recognize that an asset management firm has two main lines of business: raising capital and investing capital. Everything else (administration and processing, finance, research, compliance, etc.) is in support of these two critical success factors. An asset management firm needs a Chief Marketing Officer as much as it needs a Chief Investment Officer, and certainly as much as a CFO and CCO. Hedge fund managers who do not recognize the importance of the Marketing function early on, usually don't achieve their goals for inflows of new capital.

When starting a new hedge fund company, it is common for money managers to begin with their own money and that of friends and family. Many anticipate that once strong returns are posted, the money will find them and start rolling in. Perhaps it should work that way, but there is considerable evidence demonstrating that the largest fund companies, those with the strongest capital inflows, don't necessarily have the best returns or risk-adjusted returns. However, those funds do have high visibility, a sound reputation among their targeted investor group(s), and the best overall value, or perceived value, to their investors. This is achieved through effective execution of clear and intelligent marketing strategies in each element of the marketing mix.

These are challenging times in which to start and grow a hedge fund; not just in Canada. As investor and regulatory demands grow, managers are focusing relentlessly on operational efficiency and costs in the battle to maintain margins. Even managers experiencing an increase in revenue, as their performance improves and assets grow, are not necessarily gaining improvements in margins.

Despite these challenges, to be successful in raising assets in today's competitive environment it is imperative that hedge fund managers allocate resources to marketing. It is necessary to clearly identify and prioritize the target investor audiences, to focus on all aspects of the quality of the hedge fund offering to ensure investors' needs are met and to effectively articulate the message to the marketplace so that investors' perceptions of the quality of the offering are accurate.

It is not easy, in today's competitive landscape to break through the clutter of investment choices and beliefs. Prioritising and effectively allocating time, energy and money to all the important activities, including marketing, will be key to any firm's overall success.

Some firms decide not to spend time and money on marketing activities in the first year (or two or three) until a strong performance track record has been built. However, it is important for all funds to develop a comprehensive, well-thought-through, five-year strategic marketing plan at the outset, one that embraces this time-plan. Once the strategy is in place, the tactical execution (including the timing) will naturally follow.

Overview of a Five-Year Strategic Marketing Plan

Market Definition and Category Structure

Market Size and Growth Trends

Competitive Environment

- Investor target audiences
- Distribution
- New Products/Technology/Pricing
- Service
- Sales Force
- Advertising/Promotion Practices

Relative Market Share

Competitor Strengths/Weaknesses

Outlook

Environmental Factors (ie, Regulatory, Legislative)

Anticipated Trends

SWOT Analysis

Description of Your Investment Product Offering:

- Strengths
- Weaknesses
- Opportunities
- Threats

Long-term Goals

Assets

Market Share

Share of Key Market Segments (eg, HNW Investors, Dealers, Endowments and Foundations Pension Funds)

Profitability

continued...

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Strategic Thrusts

Risks

Investment Fund/Product Line Strategies

Market Segmentation and Target Investor Audience

Branding and Positioning

Product Line-up, Features and Pricing

Distribution

Sales Force

- Segmentation and Target Audience

- Positioning

- Compensation

- Wholesaling

- Communication

- Sales Support

- Service

Communications (ie. Advertising, Promotion and Public/Media Relations)

Investor Service

Next Year Program and Key Activities (including timing and budget)

This section of the marketing plan would include the detailed tactics that will be employed to execute the strategies outlined above.



Conclusion

With solid, well thought out strategies and effective, process-driven tactical execution of these strategies, hedge fund managers set themselves up for success in raising capital and achieving their long-term goals.

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