

## **“Marketing Alpha”: Fundraising Intelligence For “Sub-Institutional” (\$0-\$100 million AUM) + “Small Emerging” Managers.**

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### **Getting past the “BS” of marketing and fundraising.**

There’s way too much “BS” about marketing and fundraising for smaller managers.

Of the approximately 15,000 hedge funds, the vast majority have less than \$250 million in assets and represent approximately 4% of industry assets. Industry data estimates that nearly 88% of hedge fund assets are controlled by firms with more than \$1 billion in assets.

(Source: Don Steinbrugge/Agecroft Partners)

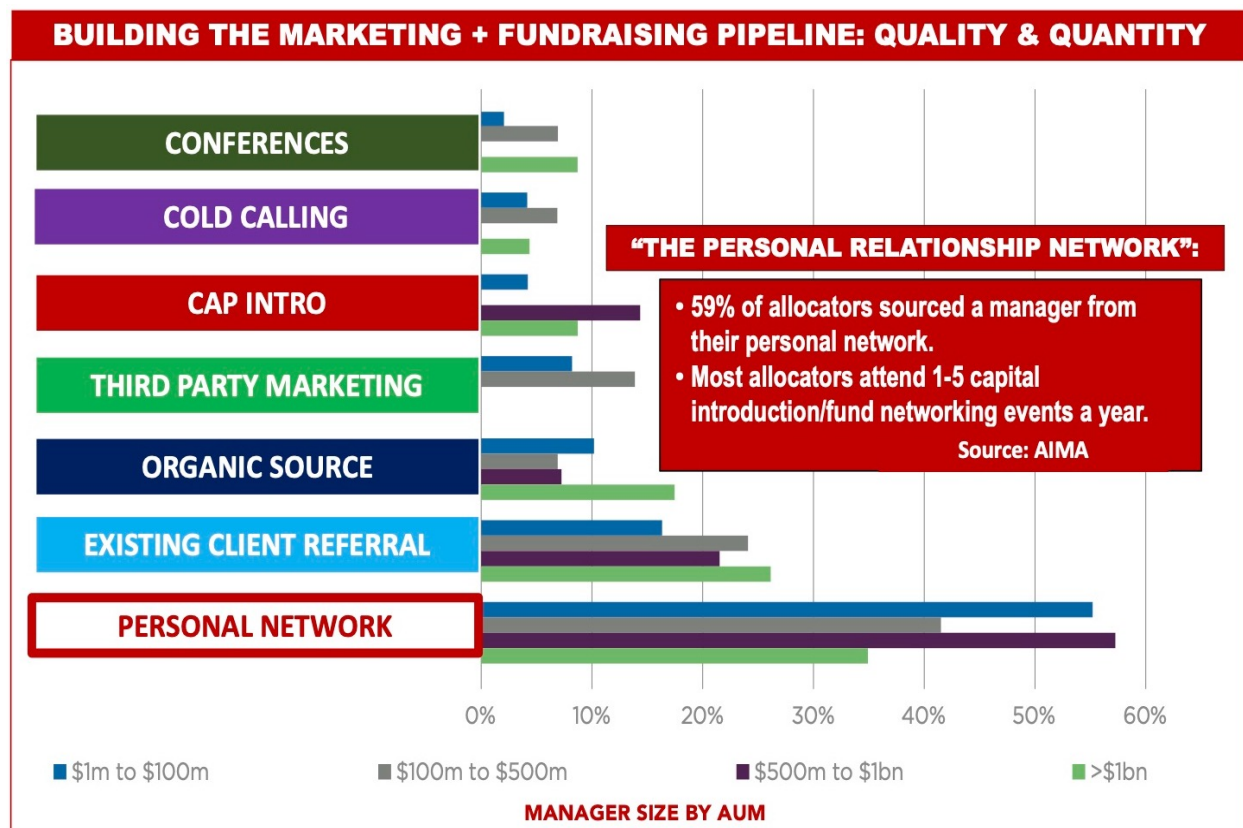
These “bulge-bracket” billion-dollar firms have well-resourced marketing that produces strong connections i.e. “RELATIONSHIPS” with the “right” individuals and firms in their targeted investor segment(s): family offices, RIAs, endowments/foundations, pensions, sovereign wealth funds, etc., which enables efficient, economical and effective marketing that optimally positions them for expedient fundraising.

Most “sub-institutional” (AUM less than \$100 million) and small emerging managers fail to raise assets beyond a small circle of family and “friends” along with a few high-conviction investors. As most do not have a structured, focused and disciplined marketing process to build trusted relationships and lack understanding how to execute marketing in the current capital raising climate of hyper-skeptical/“low-trust”, risk-averse, idiosyncratically demanding and stringently selective investors, allocators, gatekeepers, intermediaries and advisors. The usual “pitching”, “posting” and “partying” (conferences) doesn’t raise assets.

The end result of “no marketing process”: Failure raising assets and closing down.



Investors, allocators, gatekeepers, intermediaries and advisors receive a tsunami of text messages, emails and phone calls on a daily basis from managers seeking meetings. Faced with this volume, investors rely on **RELATIONSHIPS** and recommendations from **TRUSTED INDIVIDUALS** to determine which manager(s) to consider, meet with and invest in. The hedge fund investor marketplace is highly interconnected, and investors exchange information about managers through both formal and, more often, informal channels. Data from AIMA (Alternative Investment Management Association) shows an investor's "relationship network" is the primary and most powerful source of manager identification. To that end, the marketing process is absolutely critical for small managers to build strong relationships, which takes time and cannot be rushed.



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Most sub-\$100 managers dismiss the critical necessity of marketing and its appropriate execution, as the majority firmly believe "performance brings assets". The truth is performance just gets attention not assets. The belief that incessantly "pitching performance", "posting performance to databases and social media (LinkedIn) will bring assets proves false and a waste of time and effort for small managers attempting to raise assets. Allocations are not performance, transaction or product-driven but "trust-based".

It takes multiple meetings, many "in-person", for an investor to assess a manager. As such, it is crucial to have a marketing process for what is a long manager evaluation process. The consistent appropriate prospect engagement and nurturing of relationships to the point of being "allocation ready" by following up and helping them through due diligence requires a structured and focused marketing process.

## TRUST = “ACTIONABLE CONVICTION”

### Top Five Factors Driving the Decision to Hire an Asset Manager

% of respondents

|   |                                                            |     |
|---|------------------------------------------------------------|-----|
| 1 | Strong understanding of the firm's investment process      | 95% |
| 2 | Asset manager credibility                                  | 89% |
| 3 | Strong understanding of the firm's risk management         | 82% |
| 4 | Clear and consistent communications                        | 77% |
| 5 | Confidence in the firm's business structure and incentives | 77% |

INVESTOR  
TRUST

Source: Chestnut Advisory

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Again, allocations are not performance, transaction or product-driven but “trust-based” and a manager being overly aggressive by “pitching performance” is a primary reason for killing a “relationship” and losing a possible allocation. An allocation won’t be won’t on first contact but can certainly be lost on first contact. The old saying about first impressions holds true. Most investors require multiple meetings before making an investment. As examples, the mean time for an emerging manager to receive an initial allocation after the first meeting is 6.3 months according to AIMA and the median time in the venture space from seed to Series A is now 774 days, according to Carta, and it can take more than 200 investor conversations to close a seed round, per NYU Entrepreneurship research.

Marketing for small managers is a D-I-Y process. The thought by small managers of getting attention from capital introduction (cap intro) teams at prime brokers and “commission-only” third party marketing (3PM) is false. Research from AIMA reveals that 0% of managers with less than \$100 million AUM receive allocations via 3PM and only 4% via cap intro.

Large firms with deeper resource can hire seasoned, highly-respected internal sales professionals, utilize top-tier highly-reputable 3PMs and get focused “quality” attention from prime broker cap intro. The expense of hiring internal marketing and sales as well as engaging a “reputable” 3PM is substantial. Marketing in an ultra-competitive, and crowded (30,000+ global funds now in active fundraising) capital raising atmosphere, has considerably increased marketing cost. Sub-institutional and small managers tend to have limited budget for marketing, making marketing and fundraising even more challenging.

**NOTE: There’s an epidemic of capital raising scams directed at small managers. As such, caveat emptor for small managers seeking external fundraising assistance.**

**The Bottomline** = Performance does not attract assets.; performance merely brings attention not allocations. Marketing is mission critical. The smaller managers and firms most likely to successfully raise assets are those that implement and execute a structure, focused and disciplined marketing process that fosters consistent "investor-centric/prospect-specific" engagement with the right investors, allocators, gate-keepers, intermediaries and advisors.

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If you are sub-\$100 million AUM manager that wants a candid "**NO-BS**" conversation about marketing and fundraising as well as discuss how Johnson & Company can help you, contact:

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[www.johnsn.com](http://www.johnsn.com)

Since 2011, Johnson & Company has been the only marketing specialist for "sub-institutional" (\$0-\$100 million AUM) & "small emerging" managers to optimize fundraising.

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