7 Mistakes Smaller Hedge Funds Make Raising Assets.

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- ***Mistake #1: Not Developing an Intelligent Marketing Plan/Process.*** Most start-ups and smaller hedge funds are full of excitement as a result of their investing returns or potential success, thus they hit the marketing and fundraising trail with enthusiasm. But trying to raise assets, without thoughtfully creating a marketing plan is a common recipe for failure. (***Research shows that 80% of all hedge funds do not have a documented marketing process***) The biggest fantasy most smaller funds succumb to is the belief that "returns will attract AUM". In truth, returns only attract a level of attention. Without a documented, disciplined and focused marketing plan/process, the vast majority of small funds end up frustrated, exhausted and sadly disillusioned marketing and raising assets. An intelligent marketing plan/process provides the specific details needed for consistent, high-level execution to create and increase the necessary visibility, awareness and relationships about enterprise-wide performance to attract AUM and expand/diversify the investor base. In addition, it provides accountability and quantifiable methods to measure marketing and the ROI. Growth or lack thereof in AUM is a lagging indicator about the success or failure of the marketing plan/process as well as the level of marketing execution.

- ***Mistake #2: Not Planning a Marketing Budget.*** Most start-ups and smaller hedge funds without a marketing plan also lack a marketing budget and funds without both have the highest rate of failure. After all, it takes money to raise assets. From the very beginning, it is important to focus on the financial costs of marketing implementation and fundraising execution. The belief that the costs of marketing and raising assets are minimized or eliminated by an outsourced relationship with ""3rd Party Marketing (TPM)" raising assets for a start-up, emerging manager or smaller fund on a "commission-only" basis is false. (***Research shows that only 1 out of every 275 sub $250 million AUM hedge funds establishes a TPM relationship)***. A TPM engagement is comprised of analysis, due diligence, continual consultation and other expenses (travel), which are financial responsibilities of the client/fund. Such expenditures are significant and often exceed the financial resources of most smaller funds.

- ***Mistake #3: Not focusing on the MOST appropriate investors.*** Most start-ups and smaller hedge funds waste valuable time and resources "chasing institutional unicorns": Attempting to obtain allocations from investors that are not suitable given the fund profile as reflected by structural issues such as lack of size or operational robustness. Discussions about institutional allocations and small funds are largely noise due to extensive operational requirements in the management of fiduciary assets. As such, identifying the ideal target segments and profiling investors are critical to success on both the business side and the investor side. It is also critical to choosing the appropriate marketing techniques to reach intermediaries and potential investors.

- ***Mistake #4: Not Developing a Clear, Concise, Consistent, Compelling, Compliant (Regulatory) Marketing Message*** Strategic Marketing (Messaging) is the careful development of precise and succinct communications that quickly convey the key message(s) you want investors to know. (***Do YOU know the marketing Rule of 3?!***) In today's hyper-competitive climate if you can't convey your message(s) quickly and with resonance, you will lose your potential investor. Make sure your message(s) represents the issues and risks concerns your audience is focused on. The last thing you want is to confuse a potential investor by missing what is really important to them and appearing not to understand their perspective!

- ***Mistake #5: Believing Your Fund Will Sell Itself.*** Most start-ups and smaller hedge funds make the mistake of thinking that their fund is so great and returns so outstanding and alpha generation so compelling that they don't need marketing to tell their story to the investment community. There are 7,000+ hedge funds! How does an investor/intermediary distinguish the better/best opportunity? The reality is investors and intermediaries need to be educated why they should invest in your fund. They need to achieve a level of solid conviction to make an allocation. This requires marketing. Regardless of how great you, your fund and investment performance are, you need marketing to attract, retain and expand AUM.

- ***Mistake #6: Under-estimating the Value of Your Existing Investors.*** Most smaller funds focus primarily on acquisitive growth. Unfortunately, this often means poor engagement with current investors and missing out on organic growth. Existing investors need to be communicated with consistently to create high retention rates for the stability, growth and diversification of AUM. Sadly, the lack of a solid investor relations process (service, communication and education) with **existing** investors often means that they will go elsewhere and take possible allocations and ***RELATIONSHIPS*** with them.

- ***Mistake #7: Expecting Too Much, Too Soon***. Often, start-ups, emerging managers and sub $250 million AUM funds just beginning the marketing and fundraising effort will get terribly disappointed and discouraged because they do not see the results they wanted immediately. Marketing and raising asset are really about developing trusted relationships. Simply, It takes time to build the level of interest and trust to get allocations. Professional marketers know the Rule of 7: Most prospects will need some contact with your products/services 7 times before they buy from you. This has been backed up by empirical research and when broken down looks like this:

  - 2% of sales are made on your 1st contact.
  - 3% of sales are made on your 2nd contact
  - 5% of sales are made on your 3rd contact
  - 10% of sales are made on your 4th contact
  - 80% of sales are made between your 5th and 12th contacts

To convert a ***potential*** investor into an actual investor, you must reach out to them with a consistent marketing process that creates an exceptional holistic experience in order for the investor to establish a relationship of "360 degree confidence" i.e. "know" and "trust" you, your fund, your process and performance deep enough to take the risk of purchasing a position i.e. making the allocation.

Candidly, the days of promoting pedigree and returns as the sole or primary marketing tactics to raise assets are gone. Intelligent processes are vital and at the heart of marketing and raising assets. Remember to stay the course, follow the plan/process (if you have one!?) and it will pay off. There is no such thing as instant success. You will find that by avoiding the mistakes on this list, and perhaps working with us you will be solidly on your way to success marketing and raising assets.

About Us: Johnson & Company provides marketing and fundraising advisory services to start-ups, emerging managers and sub $250 million AUM alternative asset managers. Our focus and solutions deliver the essential strategic insight and tactical resources, which provide the basis for economical, expedient, effective and efficient marketing and fundraising execution.

As Founder and Managing Partner, Bryan K. Johnson has 20+ years experience within alternative investments. Previous to launching Johnson & Company, he served as Global Head of Marketing and Business Development for the Alternative Investment Group at Moody's Investors Service (MIS). Prior to his tenure with Moody's, he served as chief expert witness and lead consultant for The Attorney General of Texas and The State of Texas in the evaluation of hedge funds and private equity firms in the acquisition of the assets of Texas Genco. He was also Founder, Chairman and Chief Executive Officer of Gotham Bay Partners, a Denver-based Alternative Investment Firm, providing alternative manager selection and analysis as well as asset allocation services to private wealth clients.

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