

## Why “Intelligent Marketing Processes” are Mission Critical For a Hedge Fund!

*Marketing and Raising Assets in the “New Normal”.*

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**Exceptional returns and pedigree, while essential, are no longer sufficient alone to attract assets.** As overall hedge fund performance has been lackluster this year, even the clear winners with strong investment performance and solid backgrounds have faced significant headwinds marketing and fundraising. Now more than ever, hedge funds are beginning to realize intelligent marketing and fundraising processes are mission critical components to survive and succeed.

The marketing landscape is changing **FAST!** In the post-Madoff/credit crisis world, hedge fund marketing is hyper-competitive, volatility greater, regulatory intervention dynamic and increased, litigation risk elevated and demands by investors and consultants are more stringent and invasive as reflected by protracted due diligence processes and expanded allocation cycles. For a fund of any size to be successful attracting and retaining assets, it must have a clear, concise, consistent, compelling and regulatory compliant marketing and fundraising process. Such an approach must succinctly articulate the fund's idiosyncratic viewpoint (investment philosophy), behavioral (operational) distinction and competitive edge to enable the continual, efficient identification and appropriate, effective engagement with the most qualified, suitable investors as well as intermediaries (consultants and other external advisors) given the fund's profile (strategy, size, operational strength, etc.).

Some think the lifting of the ban on hedge fund advertising and solicitation via the JOBS act will be a game-changer! Regardless of which side of the discussion you fall, it's clear that getting marketing razor-sharp and laser-focused should be a top priority for any fund that wants to seriously compete for allocations! Successful marketing and fundraising requires proactive, better-informed, strategic thinking, more astute preparation and near-flawless execution.

### Clear Process and Measurable Goals Are Essential

To be successful raising assets, marketing must be organized, structured, systematized and efficient. Clear process and appropriate metrics are essential. Investment performance results from process and the same can be said of marketing and fundraising. A fund that is not absolutely clear about efficient marketing, effective fundraising and has the ability to measure efficacy of activity, is positioned for failure. In fact, most funds don't get clear about marketing which is why **89% of all hedge funds fail to reach \$100 million in AUM.** Moreover, many don't measure marketing activity or know the appropriate metrics to use. It's unsurprising that "**76.4% of hedge funds ‘TAP OUT’ their network of investors within 1 year**". Without knowing the efficacy of a marketing approach, the probability of successful fundraising is extremely low. What gets measured affects what gets done. If the **RIGHT** things aren't measured, the **RIGHT** things can't be done.

In the absence of process, a fund will market aimlessly and have chronic failure raising assets. Candidly, funds without intelligent marketing and fundraising processes rarely get AUM beyond family, friends, a few initial investors and never achieve full potential. Ultimately the principals view AUM and say "We're delivering returns!! Why aren't we growing?"

If marketing is so critically important, why do so few funds take the time to construct comprehensive intelligent processes? Part of the reason is a lack of knowledge about how to do it **RIGHT**. The typical hedge fund is launched by traders, portfolio managers or research analysts, who have little marketing experience and have rarely received any professional instruction in the skills of marketing or the nuances of fundraising. Moreover, most operate without full-time professional marketing. Therefore, a failure to understand the immense importance of the complementary relationship between marketing and fundraising is common. Those funds that truly "get it" outperform others in asset accumulation and retention by an enormous degree. A fund that ignores the reality in the value of intelligent processes does so at its own peril. Marketing a hedge fund is a process, which requires the same degree of thought, structure, planning, discipline and consistency as investing or trading. Most funds understand the legal, accounting, administration and technology commitments they must make but few acutely understand the resources and commitment required for successful marketing and fundraising.

In addition, a major deterrent to implementing an intelligent process is skepticism about its necessity and results. Many funds have the fatal belief that great returns will attract assets, hence a fund doesn't "need" marketing, but this is not the case. A "field of dreams" approach lays the foundation for failure. In addition, some funds fall prey to "out-dated" inappropriate and ineffective approaches as well as the unfortunate to encounter inexperienced, unscrupulous or unprofessional "marketers" (form can be greater than substance). As a result, they have received no payoff for their time, efforts, investment and commitment. Unlike the cliché there is no "bad" publicity, there is "bad marketing" and poor marketers.

### **Clarity Is a Choice**

Most funds market in an "ad-hoc", unfocused and undisciplined manner by posting returns on popular databases and seeing what happens. Many realize too late they should have implemented structured intelligent processes. Clarity is a choice, which can't be acquired passively, it requires high-level, consistent proactive work. The world of trading has rules and truisms that form process. We've all heard some of them:

- "If you don't know who you are, the markets are an expensive place to find out".
- "Plan your trades. Trade your plan".
- "Always discipline yourself by following a pre-determined set of rules".
- "You must have a program, you must know your program and you must follow your program".

Failure to implement intelligent marketing and fundraising processes, delivers the same result as deciding to violate proven trading axioms: LOSSES! Undisciplined trading by inexperienced traders is the primary reason why most lose money in the market. The same can be said about lack of success raising and retaining assets: It is often the result of undisciplined marketing and fundraising by the inexperienced.

### **Getting Started**

Without process, many funds default to "pretend marketing" such as "Post & hope". Evidence shows that little growth in AUM results from such activity. Candidly, returns just get attention. At the worse, no process precipitates "bad marketing" such as "spray & pray" i.e. blindly canvassing or sending information to investors from databases and lists, which is unproductive and highly unprofessional. Moreover, some small funds and individuals or firms inexperienced with alternative investment marketing often engage in "aggressive selling": pushing and attempting to sell to anybody who can be persuaded to listen. This is detrimental to both current and future fundraising. A fund without a clear process must make the commitment to construct one to avoid activity, which can be catastrophic to current as well as future marketing and fundraising. It doesn't take much time to develop an intelligent process but it does require focus, clarity and quality of thought.

### **Clear Process Sharpens Present-Moment Decisions**

Maintaining clarity as a result of an intelligent process provides tremendous certainty in deciding what to do marketing. When presented with a "marketing opportunity" such as conference attendance, investor meeting or the illusive cap intro invite, process defines if it "fits" i.e. is it a real opportunity or a waste of time? Process prevents being swayed by the "pitch" or "sizzle", which may offer lots of promise such "networking with investors"! The long view sharpens the short view. As a fund moves toward full implementation of intelligent processes, it gains knowledge along the way and adapts. **Intelligent marketing process are dynamic in order to respond opportunistically to capricious, volatile markets, demands and sentiment of investors as well as regulatory change.**

**A fund that commits to "intelligent marketing processes" will see immediate measurable results.** Marketing and fundraising decisions will occur more rapidly because a fund will know its either moving towards or away from appropriate investor base management, superior investor relations, continuity as well as expansion of the revenue stream and business stability. **So do YOU have "intelligent marketing processes" in place??**

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**About Us:** Johnson & Company is an Austin,Tx-based hedge fund marketing advisory firm for sub \$250 million AUM funds. Our service focus and solutions bring the essential strategic insight and tactical resources to small hedge funds, which provide the basis for economical, expedient, effective and efficient 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), responsible for the deployment of Operational Quality (OQ) Ratings For Hedge Funds. 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 in the multi-billion dollar true-up of Centerpoint Energy (CNP:NYSE). 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. While at GBP, he raised, managed and allocated 3+ Billion to external managers across hedge funds and private equity as well as operated a \$100 million internal early stage private equity/venture fund.

If you would like to have a brief and candid discussion about marketing and raising assets for your fund,  
Contact Bryan K. Johnson, Managing Partner – Direct:(512) 786-1569 or [BKJ@johnsn.com](mailto:BKJ@johnsn.com) .

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