

## Cost of Keeping Up With Investors

WFD 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, WFD 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Unfortunately, these databases that track industry players are woefully out of date; typically 12-18 months old. Furthermore, most contact databases do not provide any sort of mandate information. While WFD does not provide a full mandate database, it does provide general information on the type of manager and strategy that the firm is currently researching. Since this level of data is not typically available in most contact databases, fund managers are often conducting blind marketing campaigns. The result is that investors are getting inundated with "requests for introduction." Investors tell WFD 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 WFD Solution**

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

**Contact database with mandate information.** The key to successful marketing is fresh, current, accurate investor prospect information. This is the main reason WFD clients subscribe to and use the WFD contact database for their outbound marketing campaigns. WFD investor profiles are refreshed every 90 days and contain pertinent investor information. Clients using WFD'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. At WFD's parent company, Brighton House Associates (BHA), analysts conducting alternative investor interviews make 250-300 calls per week, per person. That is roughly 3,000 calls per week. The BHA analyst conducts 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. WFD uses the data that BHA analysts collect to populate a contact database which provides, in an organized and easy to search fashion, contact details for all of the confirmed (and relevant) employees along with a company profile and general mandate information which details *current* manager type and strategy preference.

## **WFD's Core Value**

WFD assumes the time-consuming, laborious task of compiling and maintaining an investor contact database for fund managers. This is the primary value WFD provides to clients. BHA's 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.
- 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 accurately maintain a single record in a database.*

**How to Determine ROI** Fund managers can determine their return on investment in doing business with WFD by simply looking at the time it takes to update information on a particular alternative investor. After tracking 25 analysts' time, WFD 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, other contact databases have the first contact to call but have not established what type of manager the firm is seeking, or what type of strategy they are interested in.** This is where WFD can provide the relief that fund managers who cannot afford a premium mandate database desperately need. By leveraging the data collected by BHA analysts, WFD provides the fresh, accurate contact information that other contact databases can hardly claim to provide.