WHITEHALL FINANCIAL DATA LLC

White Paper

Raising Assets in the Alternative Arena

In the not too distant past when the economy was in a tailspin, many alternative fund managers found fund performance followed the markets downward. Many investors redeemed positions, exited funds, and ended long-term relationships with fund managers. As a result, as Whitehall Financial Data LLC (WFD) observed, the alternative investment industry has two groups in transition: fund managers that are scrambling to find new investors and replace assets, and alternative institutional investors that are rethinking past strategies and reshuffling portfolios.

This dynamic has created some problems and opened up some opportunities. One such opportunity: previously unreachable investors are now willing to discuss strategies they declined to examine in the past. While the good news is investors and managers are talking, the money, for the most part, is still on the sidelines. However, recent investor data show that allocation distribution is trending upward. A Brighton House Associates (BHA) phone survey of 100 fund managers revealed that 33 percent had secured, or were in the process of receiving, allocations. Since investor allocations have begun to thaw, fund managers should get selling.

Be forewarned, however. The selling game has changed. In the past, funds that demonstrated compelling performance numbers and engaged prospects in a dialogue for three to six months received a check. Today, the process is different. Funds must still show strong results, however, they also must engage in a vigorous dialogue, subject the executive team to scrutiny, and allow investors to monitor future performance for nine to twelve months. After all that, if funds pass muster, investors will cut checks.

The changes in the alternative investment industry are creating challenges for marketing, sales, and investor relations mavens. Ironically, the market churn that is making fund marketers' most important tool—the in-house investor database—increasingly critical is also making it increasingly outdated. In fact, most fund managers' databases are in one of two states: out of date or very out of date.

It's the Data, Stupid

The typical fund manager's investor database is an amalgamation of many in-house personal contact lists and third-party lists bought haphazardly or gleaned from the Internet. Much of the information has been gathered but not maintained, and now is circumspect with regards to its value.

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Most investor relations (IR) personnel have great relationships with a handful of alternative investors—the top 25 to 50 in the in-house investor database—with whom they have developed and nurtured relationships over the years.

Moving down the prospect pipeline, the number of alternative investors ranges from approximately 50 to 5,000. These profiles include obvious targets, past acquaintances, referrals from a friend or a friend of a friend, professionals met at networking and industry events, and prospects from third-party investor lists bartered and traded over the years. This second tier is rarely updated. The information isn't fresh or accurate, as it's been languishing for years. If it was scrubbed, 80 percent would be out of date. It is from this list that marketers "dial for dollars" and canvass by e-mail.

The third tier of an in-house alternative investor database is usually no man's land: a dusty and antiquated list of firms someone might have talked to or a list of unknown origin. For all intents and purposes, the information in this third tier is useless.

Given these database issues, most fund managers' marketing teams are way behind the eight ball when it's time to improve the visibility of the fund, introduce new investors to the team, and secure new assets.

List Management

The purpose of fund managers' in-house databases is to provide marketers with a qualified list of potential alternative investors. For example, if a fund wants to target family offices and pension funds in Boston, marketers query the database and it generates a list. The question is, How good is the list? In other words, what will happen when marketers send an introductory e-mail or make a cold call?

If the list has not been maintained, and the information is not up to date or accurate, marketers might:

- Receive bounced e-mails
- Call the wrong phone number or extension
- Attempt to reach a person who has left the firm
- Try to contact a company that's moved, downsized, or gone out of business
- Call the wrong person; he or she used to be the right person but now has another role

Fast forward to running a marketing campaign. An e-mail is sent to a list of 1,000 potential investors. The bounce back rate is 20 to 30 percent. This reduces the number of investor prospects by 200 to 300. Additionally, the firm must spend precious resources updating the list, removing the 200 to 300 entries. This is a waste of time and money, and the reason why good list management is so important.

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Marketing Is a Numbers Game

Here is a general rule of thumb for direct, outbound marketing: 1,000 targets (from a clean list) yields 100 leads, which produces 10 qualified leads and, eventually, one to two deals. Consider what happens if 200 to 300 prospects never receive a marketing communiqué. It's a no-win situation for the marketers and the fund.

Here are some other fun facts on selling. Why do people fail in fund marketing? A study that is frequently cited in sales and marketing blogs, and credited to Herb True, Professor of Management in the College of Business Administration at the University of Notre Dame, revealed:

- 44% of sales professionals quit trying to sell prospects after the first call
- 24% quit after the second attempt
- 14% quit after the third call
- 12% quit after the fourth attempt

In other words, 94 percent of sales folk quit before the fifth call, which is ironic because 60 percent of all sales and sales connections are made after the fourth call. Mapping this report to the practices of the marketing team could mean the difference between fund-raising success and failure. The overwhelming majority of IR professionals don't give themselves an adequate chance to sell their product. Today, the two main culprits of low fund-raising levels are bad data and inadequate follow-up.

Campaign Management: Optimize Your Chances for Allocations

Each marketing initiative is a set of tactics that is part of a strategy to raise funds. How marketers develop and implement these campaign tactics dictates their success. Here are some pointers to achieve the best results:

- *Pitch potential investors that are most like current investors.* Marketers should start at ground zero and ask: Who has invested in the fund? What category of alternative investor are they in? Then target investors that fit in that category. For example, if existing clients include corporate pension funds, make them a primary target.
- *Leverage clients.* The alternative investor community is small. Ask current clients to recommend other investors that are in a similar—or dissimilar—investment category. Use existing investors as references. Additionally, ask clients for suggestions on how to position a fund or strategy.
- *Update pitches and associated pitch books.* Pitches should not be static. On every call, marketers are learning how to best position a fund. Pitches should be updated continuously to incorporate new information.
- *Create a target investor profile.* After developing a target list, create a target investor profile based on AUM, geography, strategy, and so on.

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Marketing is an ongoing effort. Start with a current database, try various tactics over a specified time period, analyze the results, and implement refinements to make campaigns more effective.

The Elevator Pitch: E-mail or Phone

Armed with a clean list and a few tactical campaign trials, the next step is writing an introductory e-mail. Keep in mind that the average alternative investor receives 100 unsolicited phone calls and e-mails per week. The noise that marketers generate for investors makes it almost impossible for investors to find fund managers. Therefore, the marketing task of making a connection is actually quite difficult.

Choosing to e-mail or phone potential investors is a matter of personal style and preference. However, when using e-mail, the Subject is crucial: “Barack Obama, U.S. President, would like a brief meeting with your firm.” Send the e-mail to the target list. This is outbound marketing; if the list is current, a 1 to 2 percent hit rate out of a thousand is decent.

Most marketers stop here. Rather than speculate on their reasons for doing so or say why it is wrong, it is enough to report that sending the exact same e-mail three days later with a modified Subject line—“Barrack Obama, U.S. President, would like a brief meeting with your firm. Second attempt.”—will catch more eyeballs. Finally, five days later, send the same exact e-mail for a third and final time: “Barrack Obama, U.S. President, would like a brief meeting with your firm. Third and final attempt.” This methodology will garner a 3 to 5 percent hit rate. Marketers who are extra diligent in their follow-up can boost their hit rate above 5 percent. Results will vary depending on the commitment and skill set of the marketer.

As for the content of the e-mail, the opening overture should be short and sweet, clear and concise; two to three lucid cogent points at the most. Include a few short sentences about who wants a meeting and why he or she is compelling. Follow this with one short, well-constructed power paragraph about the firm. Tell the investor that the firm will be in the neighborhood and it would mean a lot to meet with him or her for a brief introduction (20 to 30 minutes). From beginning to end, the content should be no more than three to four short paragraphs and no more than 300 words.

Summary

Raising capital is not just about selling. It is also about executing a well-thought-out tactical initiative to raise money adroitly. Marketers must start with a clean database of targets; have crisp, lucid, and compelling messages for phone and e-mail canvassing; and understand that in a highly competitive marketplace the marketing strategy that is right from the beginning will win in the end.

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