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## Suddenly, everyone is in "cap intro"

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As I write, I'm sorting through the hundreds of business cards collected during 9 consecutive weeks of hedge fund conferences in 6 cities on 3 continents. Anyone who has spent time on the conference circuit (in *any* industry) knows what I'm going through. Who was this guy? What exactly does "director of strategic development" mean anyway? Did this card go through the laundry in my shirt pocket?

So many cards, such a haze of memories. But there is one thing that a lot of these business cards seem to have in common: the words "capital introduction team". It seems that pretty much everyone I met this fall from a prime brokerage ("PB") wasn't actually in sales, but was part of the "capital introduction team". It's as if all PB salespeople changed jobs all of a sudden. Or maybe the PBs have simply become third party marketers - compensated not by a percent of assets as a third party marketer would, but by traditional prime brokerage fees such as spreads on security lending and short rebates.

Financial News published [1] [an interesting story](#) today about the new dominance of cap intro in the value propositions of many prime brokerages. Says Financial News:

*"Investment banks looking to capitalize on the wealth of the trillion-dollar hedge fund industry are plowing more resources into helping hedge fund managers raise money. By strengthening their capital introduction teams – once seen as a glorified dating service – prime brokers hope to secure potentially lucrative start-up funds as clients."*

With research indicating that hedge funds may be [2] [putting on hold](#) the notion of maintaining multiple PB relationships, focus has shifted - more than ever - toward bagging the next hot start-up. According to Greenwich Associates, small-fry hedge funds (with under \$100m AUM) ranked cap intro #1 on their wish list.

Financial News even reports that some PBs have mused about charging separate fees for this service. If they can overcome the regulatory issues surrounding the integration of cap intro and PB ([3] [see related posting](#)), then PBs could make some serious money - not just the 9 figures they currently make, but 10, 11 or 15 figures (okay, maybe not 15).

Extracting 20% of the "economics" (40 bps and 4% of "2 and 20") is tantamount to owning a 20% non-voting equity interest in the hedge fund manager itself. In both cases, the marketer owns 20% of the future cash flows of the business (assuming margins from marketing and operations are the same).

Like traditional third party marketers, some cap intro teams also provide "free" consulting on topics such as fund start ups and marketing messaging. CS's head of cap intro tells Financial News:

*"We definitely felt like capital introduction had run its course. The needs of many hedge fund managers had outgrown what the traditional capital introductions model was able to provide. We have a successful capital introduction team and successful placement team – by putting them together it would allow us to leapfrog the*



*competition."*

Manager seeding operations also provide this type of value-added service. HedgeWorld [4] [reports](#) about one such firm, Cole Partners. Brad Cole, CEO of the firm tells HedgeWorld that these venture capital style firms provide a valuable service - at a price:

*"As a marketer I should be opposed to these guys," Mr. Cole said, "but we see some good there." In a highly competitive environment, he said, they can provide structure, working capital and credibility, getting a fledgling fund past the first few steps of being a small manager. "But be prepared for sticker shock."*

At the same time, bare bones marketing in the form of hedge fund databases on steroids. While they don't provide any value-added consulting services, they open up a channel of communication with the market that the hedge fund manager is free to exploit. And let's face it, a lot of managers say they just want the "leads" any way.

Some, like [5] [recently licensed the Hedge Connection platform](#). Lisa Vioni, founder of Hedge Connection is less enamored with the integrated PB/Cap Intro model. Says Vioni:

*"There is considerable momentum behind our service as Prime Brokers and Agency Brokers recognize the challenges and conflicts of developing internal capital introduction capabilities."*

So there seems to be a bifurcation developing between full service third party marketing offerings and "marketing channel managers" (for lack of a better term). Larger PBs seems to be adopting the full service model while smaller brokerages are partnering to gain access to the one element they are currently missing - the actual "marketing" bit.

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[3] see related posting: <http://allaboutalpha.com/blog/2007/01/02/us-regulators-grow-alarmed-over-hedge-fund-hotels/>

[4] reports: [http://www.hedgeworld.com/news/read\\_newsletter\\_pns.cgi?section=peop&story=peop3274.html](http://www.hedgeworld.com/news/read_newsletter_pns.cgi?section=peop&story=peop3274.html)

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