



Managers Pitch to Pickier Clients

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This is the fourth in a series of articles on raising money for hedge funds.

NEW YORK (HedgeWorld.com)—If you build it, the money will come. If that was ever true for hedge funds, it certainly is not any more. Capital has become harder to get and to succeed on this front managers need to work on it.

HedgeWorld asked Lisa Vioni for tips on approaching investors. Ms. Vioni was director of marketing at two different hedge funds—a startup and the well-established mortgage manager Ellington Management Group LLC. She is currently chief executive of Hedge Connection Inc., a provider of investor information and networking.

HedgeWorld: What feedback do you get from managers about raising capital?

Lisa Vioni: We're at a difficult economic point where many investors have lost money and are not sure how much capital they'll have to allocate. So investment is partly frozen, though there is money on the sidelines. On the other hand, there are always market cycles and investors always make bad as well as good investments. Through it all, what matters for hedge fund marketing is to take the time to build relationships. In any economic situation, it takes time to get an allocation.

HW: Do people make mistakes in approaching investors?

LV: Managers can be impatient. They read in the news that a new fund launched with several billion dollars and think it should happen to them. In fact there are very few large startups, but those get attention in the press. It's a long, arduous process to start any new business. Why should hedge funds be different? Raising money for a fund requires building trust.

HW: How can funds build relations with investors?

LV: What I tell managers is to be sensitive to the fact that the person you're talking with may have just lost 20% of an investment in some fund. So don't start by asking whether they have money to put into your fund. Instead you might discuss the latest developments in the market you know and offer your insight. Use your expertise to help the investor understand the situation so they can make better investment decisions. If they learn something from you, they're more likely to want to talk with you. At some point you might ask where they are in their allocating process.

HW: Why do some funds with solid performance fail to raise capital?

LV: One problem is that many managers don't know where marketing fits into their business plan. They think that if they have good performance, the money will just come. It goes without saying you need good performance, but it is a misconception that marketing is not important, that the money will automatically find you. There is too much



competition. Managers should dedicate resources to marketing.

HW: Have you noticed any recent pattern in your investor database?

LV: Investors continue to come into our database. We're very picky about whom we let in—70% or 75% of the applicants do not meet our criteria so they don't get into the database. We have almost 800 investors from 35 countries. The membership is mainly family offices, 30%, and funds of funds, 35%. Advisers to high-net-worth investors are around 10%. Endowments, foundations, pensions and insurance companies account for most of the rest.

HW: What kinds of funds use your site?

LV: They vary from small startups to a \$1.7 billion firm with a long track record that recently signed up with us.

HW: Which strategies are investors now more interested in?

LV: Right now they're more interested in niche strategies. They want to hear how a mortgage fund is taking advantage of the dislocation or what opportunities an asset-backed lending manager is pursuing. Funds with a specialized focus are having an easier time getting investor attention. It's much harder for a long/short equity manager. Sometimes an investor wants to meet a manager because they want to learn about a new strategy—say clean technology investing. So it does not necessarily mean that they will invest. But the manager has a chance to acquaint the investor with the fund.

HW: You've been at both a startup and an established hedge fund. Is it easier in a larger firm?

LV: No, it is not. Raising money is always hard work because there is a lot of competition even for a large fund and investors don't go away after they give you the money—you need to provide information and handle any questions they have.

HW: What's your advice to managers for getting investor attention?

LV: More than ever before, managers need to figure out what their edge is and how they are different. In this environment, investors are interested in managers who have special skills, can explain what's going on in a less familiar market.