Raising capital

Lisa Vioni launched the first to-market investor-intro website HedgeConnection.com with Rob Arthurs. An interactive marketing tool, it allows managers to access qualified investor profiles for the purpose of raising capital

When starting a hedge fund, attracting capital is perhaps the most important task a manager faces. Many hedge funds tend to start out investing their own cash and that of friends and family. However, once the hedge fund grows, a manager needs to reach a wider pool of investors.

Hedge Fund Manager draws on Lisa Vioni's 11 years' financial experience. In July this year she launched an investor-intro website, HedgeConnection.com *(see this page)*, which is set to revolutionise the way hedge funds raise money and attract investors *(see box on this page)*.

According to Vioni, the most important objective when starting a hedge fund is to raise capital. It is critical the manager understands the financial as well as the psychological commitment required to succeed in raising money in the hedge fund industry. It is psychological because the sales cycle is long and can be frustrating. You must not lose focus on doing something every week to increase investor knowledge of your fund with the aim of raising money.

"It is important for a start-up to recognise raising capital can be a long process that doesn't happen overnight," Vioni says.

"Investors are going to be cautious and will take between three months and a year to survey a manager before making their first investment."

The first investment an investor makes into a new hedge fund is always going to be smaller than a hedge fund would hope.

How Hedge Connection works

Investor-intro website Hedge Connection is set to revolutionise the way hedge funds find investors. The site offers hedge funds direct contact with qualified investors for an annual subscription fee, so there are no back-end commissions or other fees applied to money raised or investors sourced.

The benefits of using Hedge Connection include:

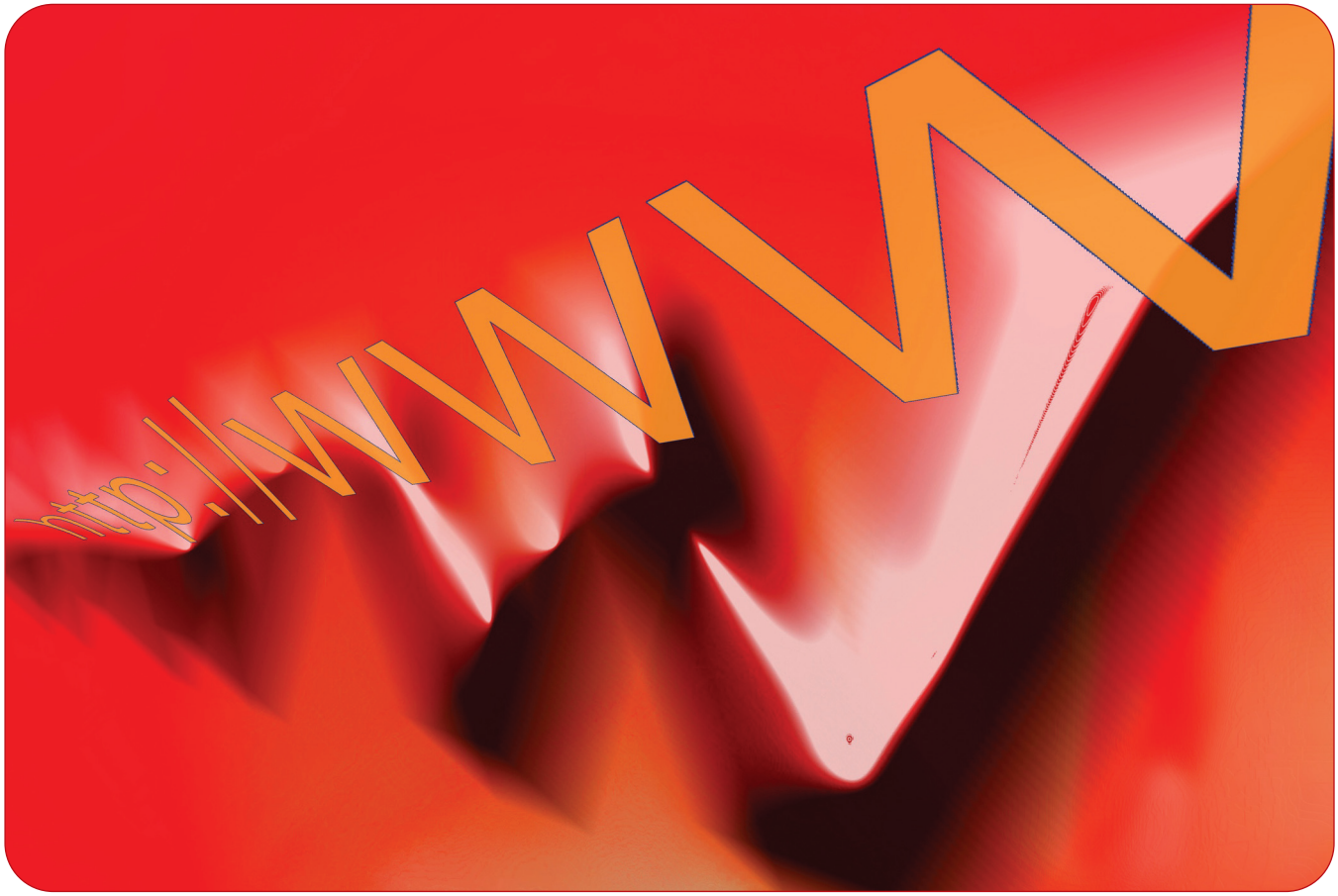
- **Economically viable. You will not have to commit to a third-party marketer who might charge as much as 20% of your fee on money raised, in perpetuity**
- **Marketing tool. You are guaranteed to meet between 36 and 240 investors over the course of the year depending on your service level**
- **Immediate access to investor community without having to spend thousands of dollars going to conferences and lunches**
- **Ability to make educated calls to the investor as you can gather information from the investor profile on the website**
- **Instant gratification. You can send virtual business cards and don't have to sit and wait until the investor contacts you.**

Understanding the process

Raising capital is a multi-level process, the first step of which is establishing a relationship and meeting the investor.

Vioni says: "A start-up fund needs to study the investor's profile provided on Hedge Connection and initiate the relationship by sending a virtual business card. You've made your first contact by making them aware of your fund. The hedge fund should then follow up with a phone call and set a time to meet in person. This relationship may then continue to build gradually over the course of many years."

Vioni stresses it is vital to follow up the



initial contact with a phone call. At this stage you must ensure you are aggressive in convincing the investor to allow you to send them your monthly numbers and/or quarterly newsletter.

"It is critical you send an update so an investor is aware of your performance figures and your fund's progress," she says.

Then the waiting game begins. You allow the investor to watch you for two or three months, and once you are satisfied they have seen you in optimal action it is time to call again to request a meeting.

Typically, investors meet with a manager at least two or three times before they make a decision to invest. The first meeting could take place over the phone, the second at the investor's office, but most of the time the investor will need to visit a hedge fund's office before they invest to see the operation firsthand.

A beautiful relationship

A new hedge fund needs to be prepared, not only mentally but financially, for the amount of time it will take to build a relationship with an investor before they commit.

Vioni believes many new hedge funds do not initially realise how important building a relationship with an investor is. For the investor, the relationship is often the most important aspect of the decision.

"A new hedge fund needs to be prepared, not only mentally but financially for the time it will take to build a relationship with an investor before they will commit"

Vioni says: "The investor is not just investing in a pure strategy, and although it may sound like a cliché, they are investing in the manager. The relationship is vital, the investor needs to know and trust you in a different light than simply performance numbers. They need to trust the integrity of the manager as well as the investment strategy."

Who should you target?

Not every start-up manager is ready to market their hedge fund. Often investors will have a prerequisite of a two-year track record from a fund. A smaller hedge fund with around US$10m under management will probably have the best return on its marketing effort from family offices, high-net worth individuals and then the seed providers.

Regarding seed companies, some hedge funds believe they are an attractive prospect and others are more reluctant because they usually have to give up a percentage of the management company for a certain number of years. Some seed providers, for example, will invest US$25m in your fund in return for between 20% and 50% of your management company for several years. This could be as few as five years and as long in perpetuity.

Some hedge funds find the seed provider model too expensive, but as a start-up you need to weigh up the pros and cons, because it can be difficult to obtain that first US$25m. And if the hedge fund has been operating for two years and is only at US$10m, it might make sense to consider a seed company.

In fact there are benefits in using a large seed capital group such as JPMorgan Incubator Strategies. It may seem expensive on the surface, but being affiliated with JPMorgan's group can be worth it in the long run because it has

enormous resources and relationships around the world.

Importance of marketing

As traders, one vital aspect hedge funds do not focus on enough is their marketing. Start-ups often do not have an appointed dedicated marketing person, so the responsibility tends to fall to the portfolio managers.

Vioni advises they need to take some time to consider a targeted plan of action over the first year to market their hedge fund. "Have a budget in mind and then spend that money thoughtfully. Remember to take into consideration the return on money spent versus the number of investors you are guaranteed to meet."

Marketing is and should be conducted as a multi-level process. It should start with a press release to all the important hedge fund magazines, the development of a quarterly newsletter, possibly a website and attending one or two targeted conferences over the course of the year. In addition, she advises it is beneficial to join the site in order to gain access to qualified investors.

Hedge Connection is the only available direct access to qualified investors that does not require paying large back-end fees on money raised. It is therefore extremely economical. The return on investors met and potential future revenues from investments is tremendous for the amount of money it costs to join. Hedge Connection offers the biggest bang for your marketing dollars in terms of investors you will meet.

Networking is also a vital part of the marketing process. Vioni suggests, as a start-up fund, you should liaise with all your colleagues and friends within the financial industry who may be able to introduce you to those groups or individuals willing to invest.

Often people are afraid to ask friends for help, but this can be where you get the best results when first starting out. Free databases are available and should be considered, but it is important to know that often these companies are affiliated with third-party marketing firms, which means you could be charged large fees from investments made from investors that find you on these databases.

Finally, if you have access to a cap-intro event through your prime broker, it may be valuable to attend. However, keep your expectations in line. A manager should never rely on their prime brokers to raise capital. If they do, they will be disappointed. It is not the prime broker's job to raise capital for hedge fund clients. And remember, no one can sell your fund better than you can.

However, Vioni points out, the cost of marketing can seem high at first. One might need to invest as much as US$20,000 in one year to mount a thorough marketing campaign.

Therefore, it is important to have a thoughtful marketing plan that will give you the most opportunities to meet and network with investors, build relationships and ultimately raise money.

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Facing rejection

Finally, when an investor says they are not interested in your strategy, it is important not to be discouraged, because even though it might be true today, it may not be next month or next year. Remember you are in this for the long run and you hope to be building long-term relationships.

You should offer to continue sending your performance data, and nine out of 10 times the investor will say yes, because they know they are constantly changing the strategies they're looking at. Vioni says it is vital to remain on that investor's radar screen at all times. In fact, you should have the courage to follow up around three months after the discouraging phone call.

Many hedge funds will not follow up with people who initially declined to invest, because it can be intimidating.

But Vioni explains: "As a hedge fund manager, you need to adapt a different psychological mode when putting on your marketing hat."

Rob Arthurs, partner of Hedge Connection, designed and built the website Hedge Connection.com. Arthurs has a degree in marketing and spent three years working as head of marketing and development at Investment Management Resources.

Lisa Vioni, president of Hedge Connection, has 11 years' experience in finance. She became director of marketing at Ellington Management Group in 1998. In 2003 she started up Investment Management Resources. In July 2005 Vioni launched the first to-market investor-intro website, HedgeConnection.com.