

Asset Retention

By Jack Inglis – AIMA: At the recent UK launch of AIMA's publication "*In Harmony: how hedge funds and investors continue to strike the right note in aligning their interests*", Jennifer Mernagh, Investment Strategist at Aberdeen Standard Investments, commented that having investor relations professionals who can deliver clear information and messages to investors about their company products are "worth their weight in gold". The Barclays paper *AUM Doesn't Grow on Trees* said, "The efficacy of the Marketing / IR team is critical for a hedge fund to grow and thrive, especially under the current market conditions." Further, in AIMA's *Making it Big* research paper, which examined what it takes for a manager to break into the billion-dollar club, it was noted that funds managing between US\$100-500m and those managing over US\$1bn all hire an in-house marketing specialist.

The investor relations function can comprise multiple elements including sales, marketing, product specialism and client service, but much attention is reasonably focused towards "asset raising" especially when a fund is starting up. Even post-launch, or when a fund is hard closed, the development of a pipeline of new investors that can be called upon is essential. This is relevant if existing investors need to exit a fund or strategy due to a decision to change course in their allocation policies, or the need to meet their own redemption requirements. A sales mentality or, put more elegantly, the desire to keep abreast of the ideas, opportunities and diversification that new investors can bring to a manager, will always play an important role in any business.

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Today the "asset retention" component of the IR role is being afforded a loftier position than, for example, fifteen years ago, when raising assets for hedge funds was easier and the typical hedge fund investor had fewer institutional requirements and so needed less minding from their hedge fund managers. The Barclays paper observed the cost of raising capital from new investors is significantly higher than from existing investors. The findings also showed that compared to 2012, the cost of raising capital from new investors rose, while it remained relatively flat or even slightly declined for existing investors. It therefore pays to give as much attention to asset-minding as to asset-finding.

The process of asset retention begins as soon as the subscription monies reach the fund's bank account. Communication is central to having a stable relationship with an investor so during the lifetime of their investment they are always clear and comfortable with how their money is being handled. Mechanisms are put in place to ensure the items which need to be communicated are delivered in an accurate, consistent and timely manner, be it performance, transparency reports, investor letters or disclosure of significant and material events, such as a change in key man or replacement of a service provider. Depending on the type and size of the investor, the style of communication will differ. Some investors want to pick up the phone and speak directly with their contact at a fund whilst others prefer a lighter touch. The role of the IR person/team is to establish early on, the best way to tackle this. A "one size fits all" approach rarely works.

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During times of good performance, the role of the IR person should be relatively straightforward, and this can present the opportunity for them to get to know their clients in a non-stressful environment. AIMA's In Harmony research showed that, increasingly, investors want customised solutions from their managers and to be engaged in true partnerships. This could mean an exchange of knowledge and education from both sides, and the chance for the manager to deliver more solutions, products and services to their investors, leading to a strengthening of the relationship and provision of further monetary benefits to both sides. Engaging at this level builds trust and lays the groundwork for when, or if, more trying times lay ahead.

This article featured in HedgeNordic's "Marketing & Sales for Hedge Funds" report.