A NEW MINDSET

HEDGE FUNDS, MARKETING AND THE AGE OF TRANSPARENCY

When the Jumpstart Our Business Startups ("JOBS") Act removed the 80-year-old ban on general solicitation and advertising for private placement, newspapers and financial magazines were filled with stories about how hedge funds were set to enter a brave new world of marketing and advertising. Six months after the passage of the law, the brave new world is just starting to emerge.

"Up until now, it's been a tempest in a teapot," says Stacey Haefele, president and chief executive at HNW Inc., a marketing and technology firm serving the financial services industry. "I've gotten a lot more calls from media buyers and reporters wanting comments about the implications of the law than calls from hedge funds themselves about how they should respond to the law."

Many initially attributed the reticence to the lingering effect of the historical restrictions hedge funds have worked under, which prevented them from employing traditional marketing and advertising practices. However, it's becoming clear that other well-entrenched beliefs are in play. In many ways, the fundamental principles of marketing and advertising are incongruous with the logical, performance-driven mindset under which most hedge-fund managers have operated for decades.

"When I tell hedge-fund managers that marketing is a slow drip in the background, it makes them nervous because they do not immediately see its intrinsic value," says April Rudin, CEO and founder of The Rudin Group, a wealth management firm, and chairperson of the High Net Worth Advisory Board of the Hedge Fund Association. "They want to know what ROI they can get from marketing. And it makes them uncomfortable when I tell them that there aren't any guarantees."

Given this, hedge funds are moving more slowly toward advertising and marketing than the pace that many had predicted — and that isn't necessarily a bad thing. "There is no danger in being too cautious," Haefele says. "The danger is in spending a lot of money on advertising and marketing before you are clear on why you are spending it."

> **“Hedge-fund marketing is about building a relationship with investors. It doesn’t happen overnight. It’s a six-month to two-year dating process.”**

Coming Out from Behind the Curtain

It’s important to understand that the JOBS Act doesn’t simply permit hedge funds to market to accredited investors. It is part of a sweeping change in the financial industry — all industries, really — to promote more openness and transparency. That raises unique considerations for hedge funds, largely because a low and elusive profile has been their brand image up to now. Hedge funds, and those who run them, have become objects of fascination in the media. In part, this is the result of operating “behind the curtain.”

“The real challenge for hedge funds is that, until recently, they have benefited from a sense of mystique and mystery,” says Daniel Diermeier, Ph.D., professor of managerial economics and decision sciences at the Kellogg School of Management and author of *Reputation Rules*.

However, that shroud of mystery is being lifted. “You no longer have the option of saying you can’t answer some questions because you might lose your private-placement status,” says Lisa Vioni, CEO and founder of marketing platform Hedge Connection, a web-based relationship-building tool for hedge funds and investors. “In the old days, an investor might accept hearing that the hedge-fund manager couldn’t meet with them, and to an extent, that played into the aura of the industry. That’s not the case now.”

Instead, in the aftermath of the financial meltdown and highly publicized incidents of unethical behavior, investors are demanding a level of transparency that requires hedge-fund firms and their managers to explain themselves in a way they never have before.

BEST PRACTICES

- **Begin building your brand now — engage with accredited investors long before opportunities come down the pike. Don’t become a victim of “too little, too late.”**
- **Use credible content to bolster your visibility, establish trust, and bring to life the unique features of different hedge funds.**
- **Leverage targeted marketing techniques versus broad-based advertising to identify accredited investors whose interests align with your fund strategy.**
- **Take the “surgical” approach: customize your messaging for different investor segments.**
- **Invest in yourself: let your prospects know who you are and what you stand for.**
- **Empower wealth advisors with a reliable stream of educational material and thought-leadership content to educate their clients.**

Ms. Vioni describes how a hedge-fund manager recently came to an initial meeting with a high-net-worth (HNW) investor prepared to discuss the fund’s performance and the market. “During the hour-long meeting, all the investor wanted to do was talk about what the portfolio manager did on his time off,” Ms. Vioni recalls. “The investor wanted to start at a very basic level and get to know the people she was entrusting her assets to. That was the beginning of her due diligence in selecting a firm. And this is happening more and more.”

Ms. Rudin stresses that the personal stories behind a fund matter as much as the numbers. “If your fund is doing early research into cancer drugs, you can build affinity and appeal with people who want to invest in something that’s doing good,” she says. “You need to understand on a deep level why investors are responding to your fund’s people and underlying philosophy.”

Trading in “Mystique” for Marketing

The notion of personal branding, which has become a rallying cry for nearly every business sector, may seem anathema to many hedge-fund managers. And many of the practices the JOBS Act now permits — such as building out a corporate web page or personal LinkedIn page — makes them wary. What they may not entirely appreciate is that, in one sense, they must abandon their industry brand mystique for some new personal brand, which may seem hazy at this point.

“Hedge-fund managers have lots of reasons why they may believe they don’t need to advertise,” Ms. Rudin says. “They’ll say, ‘my fund is closed and I’m not looking for investors.’ Or they are concerned that advertising may have a negative impact because it could create the perception that they don’t have enough customers.”

Ms. Rudin's response turns on hedge funds adopting the long-term outlook that many have not considered before. "I'll ask them, 'Does anyone think a top soda manufacturer or car brand is unsuccessful because they keep advertising?'" she says. "I tell them, 'You may be closed now, but at some point you will be looking for new investors. And when you do, that's not the moment you want to start building your brand — that's when you want investors to have such a concrete, positive image of you that they'll be happy you have the chance to take new investors on.'"

Once hedge-fund managers begin to accept that a new era of transparency does require marketing, the questions often become the nuts-and-bolts sort — how should they pay for it? What form should it take? How can they make sure they are reaching accredited investors?

A Surgical Approach to Targeting Investors

To start, a marketing program needs to respond to the changed investment landscape. In the wake of the financial crisis, a large amount of assets were withdrawn from hedge funds. Those assets are beginning to return, but the due diligence process is much longer than it was prior to the financial crisis.

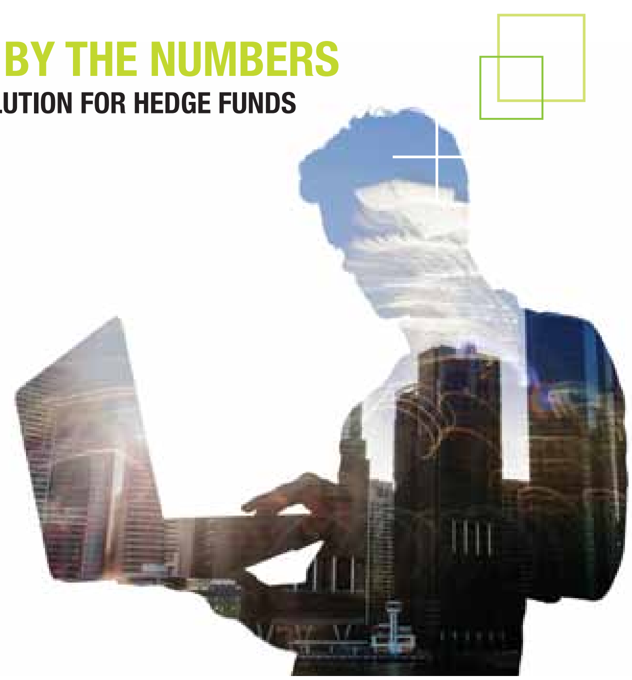
Consequently, going forward, hedge-fund managers' ability to raise funds will hinge on their willingness to communicate their strategy and vision to potential investors over an extended period, even as market conditions fluctuate.

"Hedge-fund marketing is about building a relationship with investors," Ms. Vioni says. "It doesn't happen overnight. It's a six-month to two-year dating process."

As hedge funds home in on accredited investors, Ms. Vioni says they should take a "surgical approach" that bypasses broad-based advertising for marketing techniques that are highly targeted. These approaches can include philanthropic efforts; sponsoring exclusive events and seminars that appeal to HNW individuals; and producing content that provides thought leadership and market insight.

CUSTOM CONTENT BY THE NUMBERS

AN EFFECTIVE MARKETING SOLUTION FOR HEDGE FUNDS



MOST WIDELY ADOPTED CONTENT MARKETING TACTICS AMONG B2B ENTERPRISE MARKETERS[1]

87% VIDEOS

86% ONLINE ARTICLES

85% IN-PERSON EVENTS

90% of consumers find custom content useful[2]

78% believe the organizations behind the content are interested in building good relationships[3]

68% of consumers spend time reading content from a brand they are interested in[4]

69% say it's superior to direct mail and public relations[5]

54% more leads delivered by inbound marketing funnel than traditional outbound marketing[6]

70% of consumers say content marketing makes them feel closer to the sponsoring company[7]

Content creation (and its strategic dissemination) has quickly become the standard of modern marketing because of its striking impact on reputation, engagement and qualified lead generation. According to the Custom Content Council, 90% of consumers find custom content useful and 78% believe the organizations behind the content are interested in building good relationships. In a separate study by the Content Marketing Institute, 70% of consumers say content marketing makes them feel closer to the sponsoring company. For hedge funds, an industry that has purposefully kept its distance and whose reputation has suffered as a result, branded content offers an elegant and effective solution that can bolster credibility, establish trust and bring to life unique features — and the personalities behind them.

Capturing Money in Motion

Content and other targeted marketing strategies can not only reach accredited investors, they can also reach the particular types of accredited investors a specific hedge fund wants. "Not all high-net-worth individuals are the same," Ms. Rudin says. "An entrepreneur, a retiree and a 20-year-old who came into a large inheritance can all be accredited investors, but their financial goals are not the same. A fund should not speak to them all in the same way."

Hedge-fund managers should look to reach beyond individual investors and target their wealth managers, too. By providing advisors with tools and an appropriate stream of up-to-date information that can educate them, advisors can, in turn, use this content to educate their clients.

This is especially important in light of the pending wave of wealth transfer that is expected over the coming years. Baby Boomers will receive $8.4 trillion in inheritance, according to a 2010 study. Most of those funds have not been transferred yet.

"Statistics show that when people inherit money, they usually find a new wealth advisor," Rudin says. "There is going to be a ton of money in motion, and a lot of hedge funds competing to get it. And if you are only starting to consider your marketing strategy at that point, you might as well pack it in – you'll be way too late." ■

WSJ. CUSTOM CONTENT STUDIOS

**FOR FURTHER INFORMATION ON MARKETING OPPORTUNITIES,
PLEASE CONTACT PROMOTIONSTRATEGIES@WSJ.COM**

Sources: [1] Content Marketing Institute [2,3] Custom Content Council [4] Content Marketing Association [5] Custom Content Council [6] Hubspot *2013 State of Inbound Marketing* [7] Content Marketing Institute