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Co-authored by:

RIVER COMMUNICATIONS

Margolis Advisory Group

The JOBS Act

The JOBS Act Will Accelerate the Institutionalization of Hedge Funds

- JOBS Act will drive the next major shift for the industry
- Lifting the "advertising ban" opens the playbook for hedge funds, so they can compete on a level playing field with traditional managers
- To seize the opportunity, firms must take a more strategic approach to communications

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Executive Summary

The JOBS Act is bringing change to the hedge fund industry, and, most likely, this change will accelerate the trend towards institutionalization. The lifting of the "advertising ban" opens the playbook, allowing hedge funds to engage in a wide range of strategic communications and marketing activities. For some, this will offer a new opportunity to compete for assets with traditional managers adept at managing their brands and marketplace perceptions. Others will resist, possibly to their detriment, as funds will no longer have the luxury of hiding "under the radar."

Hedge funds who embrace the new, less restrictive environment will need to build mature, comprehensive strategic communications programs. The best practices include:

- Revisiting the brand and value proposition on a regular basis to ensure it accurately and effectively reflects a "firm's DNA."
- Implementing a consistent process that provides for the regular refreshing of value-added content to communications vehicles.
- Creating content that provides true thought leadership, enhanced with proprietary surveys, and investment & industry commentary.
- Considering a broad range of distribution and engagement vehicles to build awareness of the firm, including: web and mobile devices, public relations, marketing communications, targeted advertising and investor communications.

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Hedge funds have thrived by embracing and even becoming catalysts for change. In this hyper-competitive industry, it is commonplace to expend disproportionate resources to capture even a minimal investment performance advantage. Because of this, it is surprising that there has not been more enthusiastic support in the trades for what is potentially the next major shift for the industry: the **Jumpstart Our Business Startups Act or JOBS Act**.

Passed with little fanfare, the JOBS Act lifts the ban on advertising for hedge funds (among other provisions) and has the potential to transform how managers market their firms, build their brands and communicate with their investors. Yet, much of the discussion in the trades and on the hedge fund industry speaking circuit has downplayed the potential impact of this provision as being only meaningful to the smaller funds. Large funds—as the typical explanation goes—believe they do not need to proactively market, as they commonly market off their mystique of exclusivity and will prefer to remain "under the radar" to protect their proprietary investment strategies. Furthermore, the larger funds are already staffed for one-on-one sales, and many in the hedge fund industry are under the false impression that sales are only based on individual contacts or "having the Rolodex."

The fact is, change is coming to the hedge fund industry, and many managers will continue to adapt to the ongoing evolution as they always have. Most likely, this change will accelerate the trend towards resembling traditional managers—for hedge funds can now adopt advertising and marketing techniques, as well.

Consider the trends we have observed in the hedge fund and institutional asset management space, especially since the market declines of '07-'08. New regulations have increased the demand for information on leverage and counterparty risk; the migration from single to multi-prime brokers has occurred, and institutional investors are demanding more transparency in investment operations, risk and administration. Perhaps, most significantly—the *largest institutional investors* have been allocating funds almost exclusively to the *largest hedge funds*.

According to "The Evolution of the Industry: 2012," an annual KPMG/AIMA hedge fund survey, institutional investors now represent a clear majority of all assets under management by the global hedge fund industry, with 57 percent of the industry's AUM residing in this category. And, the proportion of hedge fund industry assets originating from institutional investors has grown significantly since the financial crisis.

As a result, we are seeing a continuation of the *institutionalization of hedge funds*. The KPMG study confirmed this with survey data indicating that investors demand hedge funds look and act more like traditional institutional managers from an operational standpoint. In addition, 82 percent of respondents reported an increase in demand for transparency from investors, while 88 percent said investors are demanding greater due diligence.

Our own experience consulting with hedge funds and traditional managers has confirmed other indications of this trend, as well as with all investors—large and small—demanding greater operational efficiency; cost reduction; and models that enhance overall risk management, such as the move from single to multi-prime relationships; all delivered in an open and transparent way.

Not only do many hedge funds lack a strategic communications infrastructure, but the concept of such openness still runs contrary to the DNA of most firms.

For hedge fund managers to attract large pools of money, they will increasingly need to be more institutional and transparent with all investors. This is a significant cultural shift for these firms. Not only do many hedge funds lack a strategic communications infrastructure, but the concept of such openness still runs contrary to the DNA of most firms.

The question then becomes: how should hedge funds that embrace a more open and inclusive communications strategy implement programs that will help them achieve this goal? The answer is *they will need to develop an approach to communications that is similar to traditional institutional asset managers*.

BUILDING WORLD CLASS STRATEGIC COMMUNICATIONS

Strategic communications (in this context) refers to taking a systematic and thoughtful approach to articulating a firm's brand attributes or value proposition for a variety of purposes, including managing a firm's reputation through crisis, building awareness to drive fundraising or communicating a significant change, such as a launch, acquisition or merger. Strategic communications also refers to a broad range of activities for touching all of a firm's audiences, including: employees; investors; consultants; media; counterparties/vendors and other industry participants.

Done well, communications adds significant value to an organization, either by mitigating negative perceptions or establishing a powerful brand that becomes a tangible asset within itself. Choosing not to actively manage a firm's brand means giving up control and allowing the marketplace to fill the void and define a firm's brand. This should be cause for concern. Where a manager's relative anonymity once carried a certain cachet, such secrecy may be cause for concern in the future, especially in a "post-Madoff" world.

When developing a strategic communications program, it is crucial to begin with the development of, or synchronization with, an overall strategic plan. This means affirming the firm's overall goals and determining how communications can support and achieve those goals. It also requires performing a general SWOT analysis, possibly broken down by audience segment. Not only will this information inform the team of potential challenges ahead, but it will provide a reality check when defining brand attributes and messaging.

From a management standpoint, the goal is to create a unified and compelling story, theme and messaging, all of which will be woven into firm communications, such as websites, pitch books and collateral, as well as all interactions with investors and employees.

THE VALUE PROPOSITION

Central to this exercise is the development of a well thought-out and well-articulated value proposition: a business statement that differentiates and optimally positions your firm by describing why your target audiences should engage with you and how your offering adds more compelling value than your competitors.

Effectual value statements and firm positioning answer four key questions:

- Who you are (Expertise, Credibility)
- What you do (Performance)
- Whom you do it for (Audiences)
- How you do it (Investment Process)

While these questions might look simple on the surface, answering them in a clear, concise, consistent and compelling manner requires an honest assessment of a firm's strategy, capabilities and differentiators. They also need to carefully incorporate the firm's mission, vision and values. And, they need to resonate with all of a firm's key audiences.

For hedge fund managers, perhaps the most critical aspect of their value proposition is the investment process. It is the foundation of a manager's story and should be the vehicle to create differentiation. This is more important than ever since a solid and consistent process is the key basis upon which institutional investors make their manager selection decisions. Best practices include step-by-step descriptions; incorporating the manager's perspective on which elements provide the value-added performance; and long-term sustainable edge.

STRATEGIC COMMUNICATIONS: OPENING THE PLAYBOOK

While the SEC has said it will not provide its guidance until later this year, hedge funds will almost certainly have a wider range of tactics at their disposal. The lifting of the "advertising ban" actually includes most forms of marketing communications, including: media relations; web strategy; marketing collateral; advertising; event marketing and event speaking. This dramatically opens the playbook and will potentially allow hedge funds to take much greater control of their messaging and branding with all of their audiences.

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Some examples of this broader playbook include:

- **Branding:** A strong brand increases market awareness, placing firms in more searches. A well-managed brand enables firms to more effectively communicate their value proposition, eliminates common objections and enhances client loyalty and retention.
- **Websites:** Almost certainly, hedge funds can now move beyond the industry standard "client log in" page to provide some basic information on a firm's pedigree and general area of investment focus and begin to communicate points of differentiation. This is critical today when many investors do their initial research via computer or mobile devices.
- **Public Relations:** It is doubtful the SEC will offer hedge funds carte blanche to discuss performance, but it is very likely that hedge funds will be freer to discuss their investment philosophies in general and create visibility through media relation staples, such as thought leadership and investment commentary. This freedom offers hedge funds a greater ability to form relationships and educate the media. This is particularly important for a long term crisis/reputation management strategy.
- **Advertising:** Flip through the major institutional trade magazines, and you will see traditional managers promoting their brands and their range of investment strategies. Few rarely tout performance

or reveal trading secrets, but the advertising is effective at establishing awareness, credibility and relevance. Hedge funds will now likely employ similar strategies.

- **Direct Communications:** Similar to the advertising approach of traditional managers, hedge funds can be more aggressive while communicating with target audiences. It is difficult to predict what will be permitted, since the scope of direct communications is almost certainly an area the SEC will address with granularity due to the range of suitability issues.
- **Events:** Hedge fund managers can likely move beyond the narrow range of hedge fund-specific events to participate in broader institutional events in a more meaningful way.

CONCLUSION

As firms continue to adapt to a newly competitive investment, technology and regulatory landscape, they must recognize their communications strategy as an equally critical component for success. Effective communication of a firm's value will become almost as critical to the investor's decision-making process as a firm's investment, operational and risk management.

There are certainly some unknowns as we await the SEC's response. But, make no mistake—change is coming to the hedge fund community. Winning firms will embrace this change, not resist it. Firms that take a strategic and proactive approach to managing their marketing communications will be better positioned to compete against their peers and traditional managers.

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About Margolis Advisory Group

We work exclusively with the investment management industry to enhance sales growth and retention through people, product and process improvements and practical solutions.

With extensive industry experience raising billions of dollars for investment firms, from start-ups to large organizations, we work with executive management teams, and sales and marketing staff to achieve desired results.

While our expertise assists investment managers in thinking through problems and analyzing the marketplace, our clients benefit most when we help them in translating that thinking and analysis into execution.

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About River Communications

River Communications is a boutique public relations and marketing communications consulting firm specializing in financial and professional services. Since our founding in 1989, River has developed and implemented strategic public relations and marketing communications programs for an array of extraordinary clients, ranging hedge funds, private equity and financial technology firms to the world's largest asset managers, custodians and best-known brands. View our full capabilities and client history at www.riverinc.com.

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