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FROM OUR MEMBERS

What hedge fund managers need to know about social media

By Thomas Walek, Founder and President, Walek & Associates

Early in 2011, hundreds of investment advisory firms received an envelope from the US Securities and Exchange Commission. The letter inside was a request for documentation regarding how Registered Investment Advisors use social media and social networking web sites, such as Facebook, Twitter, LinkedIn, YouTube and others. According to reports, the letter asked how advisors use social media, what policies they may have in place to govern that use, how employees may or may not use social sites in business and non-business ways, and systems for various levels of record retention.

Commenting on this SEC outreach, one firm issued the following: "ACA believes that the (information) sweep on advisors' use of social media has been undertaken as a means for the SEC to review this evolving area." This note, from the website of ACA Compliance Group, a compliance and regulatory consulting firm, continued: "The requests are broad and will enable the SEC to evaluate how prevalent this activity is to registered investment advisers and whether it needs to dedicate further rulemaking and/or examination resources to complete a more regular and thorough evaluation of this activity."

In the face of an exploding social media landscape, the SEC is asking many of the same questions that today's hedge fund managers in the US and around the world are asking – how is social media being used and how should we deal with these new, rapidly growing outlets?

The following discussion examines what is going on in social media regarding hedge funds and what hedge fund management executives need to know about it.

HEDGE FUNDS GET SOCIALISED

Among social media, Twitter, Facebook and LinkedIn comprise the vast majority of traffic, with hundreds of millions of messages posted daily. Twitter allows communication via 140-character blurbs to a very public, unrestricted audience, while LinkedIn and Facebook provide longer form message platforms but restrict those communications to approved recipients.

These platforms have quickly developed from discussions of the mundane to include sophisticated news, research, product development, political, government, and business applications. Given the rapid evolution and innovative applications of social media, it is reasonable to lend credence to the recent statement from Facebook COO Sheryl Sandberg: "We think every industry is going to be rebuilt around social engagement."

Hedge funds are part of this trend.

Radian6, a social media monitoring service, in research conducted for Walek & Associates, found that "hedge funds" were mentioned more than 400 times a day on social media sites in the first quarter of 2011.

The 33,000 or so tweets, posts and messages include the serious and the silly – where a girl/boy friend works, job searches, investment solicitations, news, vendor offerings and the like. Hedge funds themselves represent little of this chatter, though a few examples may be suggesting a somewhat different approach.

JUST SAY NO

Understandably, most hedge funds are taking a very cautious approach.

"We don't have a written policy, but we tell all employees to stay off the social networking sites. We will probably incorporate that into a formal policy down the line."

That's from one US-based, billion-dollar long/short equity fund executive.

Highland Capital Management, a global asset management firm with more than \$20 billion in AUM, has a compliance policy that prohibits the use of any social media networks for company business communications with clients or prospective clients. An excerpt from their policy:

"Employees are reminded that the use of social media for personal purposes may have implications for the Company, particularly where the Employee is identified as an officer, employee or representative of the firm. No Employee may discuss or post information pertaining to any security, investment strategy or similar information."

Even some early adopters have seemingly backed away from social media. A Walek & Associates review of Twitter usage among AR Magazine's "Billion Dollar Club" found a virtual elephant's graveyard of quiet accounts.

Soros, Blue Ridge Capital and Goldman Sachs all started accounts only to have never tweeted or gone silent after a handful of tweets. Similarly, a prominent hedge fund executive who once posted several messages daily has not posted anything through his personal account in nearly two months.

Commenting on the current regulatory landscape, Marilyn Selby Okoshi, an attorney with Katten Muchin Rosenman, stated: "Current guidance highlights that communications over these types of media - internet, blogs, Twitter, social networking, podcasts, etc - carry the same liability as other forms of communication, and without restrictions on access, are communications with the public.

FINRA and NFA rules classify many forms of communications over social networking media as either advertising or public appearances for record-keeping and substantive compliance purposes, both of which could ruin a hedge fund's private placement or cause problems for an unregistered adviser."

Marilyn continues: "While policies will vary from firm to firm, the SEC's questions highlight that firms cannot ignore social media sites. Firms should have policies and procedures regarding their use for business purposes (which include bans on use, pre-approval of information, monitoring or other policies) and training for employees about those policies and procedures, as well as policies and training regarding use of the firm name or information for personal use by employees."

While many hedge funds are opting to avoid or severely restrict social



media interaction, others are looking at it from a different perspective, exploring the value of these emerging communication forums.

A DIFFERENT APPROACH

Despite the current regulatory environment, in concept, social media might make sense for hedge funds. These burgeoning outlets allow for communications with an audience as broad or narrow as one chooses, across all time zones and demographics.

Similar to traditional media, hedge funds may demonstrate expertise or showcase opinion by posting research, articles in which they are featured, or other insights. In another application, hedge funds might build a “gated” non-public social media community consisting of only consultants or investors, for instance, and easily communicate with them via a single channel.

Lakshmi Capital is an early adopter exploring social media interaction. Lakshmi Capital, a Registered Investment Advisor and Commodity Trading Advisor, has embraced Twitter, disseminating relevant news, white papers and industry analysis.

Tom Hart, Marketing Director at Lakshmi Capital, said: “We have found that educating and sharing analysis has been the best way for us to build reputation and trust with prospective clients.” Lakshmi has also found success using “third-party tools to build a network in a scalable and relevant way (i.e. following people interested in commodities research, etc).”

Some firms are using social media to cultivate and strengthen relations with traditional media outlets. As early adopters of social media, reporters, journalists and editors use these tools to build out their own digital networks, connecting with sources of news, research, thought-leadership and insight.

The Alternative Investment Management Association (AIMA) is also exploring applications of social media. “We are actively considering various social media options and how they might benefit the alternative asset management industry,” said Christen Thomson, AIMA Director of Communications.

Another way social media may impact the hedge fund industry is in the activist arena. David Rubenstein, co-founder of the private equity firm Carlyle Group, recently speculated that Facebook may be the next forum that shareholders use to rally for or against an acquisition in an activist situation. As Twitter and Facebook have already proven to be a powerful force in the assembly of groups in political demonstrations, it may follow that social media could be an effective investor advocacy tool, as well.

Regardless of a firm’s desired level of interaction on social media, it is important to note that as these new media gain traction, so does the potential influence of the millions of messages sent across these channels. Just as with traditional media, hedge fund managers should strongly consider monitoring how their firm and its executives are written about on social sites, with an eye on managing reputational risk. What differentiates social media from traditional outlets, however, is that inaccurate or libellous information can spread to millions of readers around the globe in minutes, potentially damaging brand and reputation.

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outlets, hedge fund executives should employ a monitoring service to track unauthorised or third-party comments posted on social media or websites that might hurt, damage, discredit or otherwise unfairly harm the RIA. Develop policies and procedures to address these situations, if they arise.

- Finally, be both wary of new problems and challenges that social media may pose for hedge fund managers, as well as open to new

NEW TOOLS FOR NEW TARGETS

Beyond current platforms and applications, future social media innovations are likely to make inroads to the hedge fund community. Hedge funds have always been interested in the high net worth market. Now with UCITS, hybrid traditional-alternative strategies, and the overall growth and influence of the \$2 trillion-plus industry, HNWs are certain to remain important audiences for alternatives managers.

The Wealthy Under-50s demographic comprise the next generation HNWs who seem to respond well to non-traditional relationship building. A recent survey by Cisco’s Internet Business Solutions Group found that 55% of this demographic use social networking sites for investment advice. Additionally, 66% of the Wealthy Under-50s are interested in joining a social networking site specific to the investor community.

Traditional asset management firms have already taken notice. Barclays Wealth, for one, an intermediary firm, regularly tweets market updates, company research and accomplishments, and news clips appealing to this audience.

Other pioneering social sites are making hedge fund inroads in various ways. COOConnect is a private, knowledge-sharing network available only to hedge fund COOs. Dominic Hobson, founder of COOConnect, says members “use the network initially to gather intelligence such as service provider and IT procurement, remuneration levels, recruitment, due diligence, and operational issues.” By restricting access to only hedge fund executives, free from vendors or investors, Hobson believes “COOConnect will encourage more meaningful exchanges”.

Albourne Village, another private, online community for the alternative investment industry, allows members to share news and research, post events and industry-related information on notice boards, comment on forums, access a database of third-party vendors, as well as post their firm information in an even more private and separate portal to be viewed by potential investors. There, accredited investors may peruse manager-provided data and information from hedge funds around the world. Albourne Village includes the same vast amount of resources and information for hedge fund managers, but what differentiates it from COOConnect is the ability for accredited investors to interact online as well.

A SOCIAL FRAMEWORK

While it is impossible to predict how social media will ultimately influence the hedge fund community, or vice versa, it does appear increasingly important to stay informed on the topic. In the face of fast-moving developments and innovations on the social media landscape, here are some basic steps and considerations for hedge fund executives right now:

- Written Policy – Develop a clear, written policy for firm and employee participation on social web sites, covering both professional, personal and authorised third-party uses and restrictions.
- Retention/Archive – Develop policies, procedure and systems for record retention of any and all social media interactions by the RIA, its employees, and authorised vendors/third-parties.
- Monitoring – As is currently done with more traditional media

opportunities that these channels may provide. There is little need to be an early adapter, but absolutely no need to be closed to new benefits and applications that may develop.

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