

BATTLE OF THE BRANDS

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Brand strategy drives hedge fund growth

With an average of three new hedge funds hitting the streets every day, managers are beginning to understand that it takes more than performance to attract assets. Visibility, differentiation and credibility are becoming the new watchwords of the hedge fund industry as global assets under management (AUM) pass US\$1 trillion.

Ironically, many a City or Wall Street trader struck out for the hedge fund world thinking they could get away from marketing or "branding." Just put up the numbers and the assets will follow. But with the proliferation of hedge funds and inconsistent performance, fund managers are discovering the need to articulate what distinguishes them from others. Recognising this, managers are launching marketing campaigns more akin to automobiles than high-end investments.

A strong brand strategy is a key ingredient for a successful hedge fund business – regardless of how small you are or how big you want to be.

Trench warfare

Ignoring the overnight, multi-billion-asset raiser, consider the market that today's managers – new and established – are selling into.

First, the competitive battlefield is big. At the end of 2004, the total number of active hedge funds was more than 40% greater than the number of listed companies on the LSE and NYSE combined.

Second, it's not performance alone fueling this growth. From a macro view, traditional investments mostly beat hedge funds in 2004. The Dow Jones Euro STOXX 50 index, for instance, beat four of the five hedge fund categories measured by the Dow Jones Hedge Fund Strategy Benchmarks. From a US perspective, it's much the same as the S&P 500's 8.99% gain for the year bested merger arb, convertible arb and equity neutral strategies as measured by the Dow Jones benchmarks.

So what do investors want?

The same holds true at the fund level. Compare the 2004 list of billion-dollar-and-higher single managers published by *Absolute Return* with the list of top performers among single managers last year and you'll see that the names on the first list are not on the second.

It's hard not to conclude, therefore, that being the biggest – i.e. most assets – doesn't follow from being the best – i.e. top performer. And that's a conclusion backed up by investors themselves.

Institutional investors – the increasingly dominant buyers of alternatives – told a Casey, Quirk and Acito survey in 2004 that they

expect only an 8% annual return from hedge funds. Further, given an equally perceived ability to deliver returns, these investors said they required prospective managers to possess traits including business management, a culture of integrity, operational excellence and sophisticated client interface.

That's where brand comes in.

So what is a brand...and how do I get one?

A brand is a name that stands for something or that is made to stand for something positive in a prospective client's mind. In automobiles, "Volvo" has been made to mean "safety." "BMW" means "driving." For hedge funds, the question is – "What do you mean?"

A brand – communicated by a name, logo, tagline, presentation deck, road show, media, advertising, and related tools – helps build marketplace awareness and understanding of your company. For hedge funds, you need to fashion a name and market position that means something positive for your existing and potential clients.

For instance, one US-based hedge fund started with a merger arb fund but looked to the future and knew they wanted to be more. Initially, they established expertise and name recognition in the merger arb space and gradually built a fund, a company and a brand.

Their brand focused on "event driven opportunities." This helped clients see more than a merger arb shop, but rather an "event driven" firm that could just as easily seize market opportunities in distressed securities, corporate failures, government restructurings or changing class shares as they could with announced and pre-announced mergers and acquisitions.

Over time, the branded company extended to European and global M&A. From the start they had a brand concept and worked to build a business and series of funds around this brand.

As you consider your brand and your market position, think about what you want to be known for in today's crowded marketplace, how potential investors can think positively about you in that way, and why investors should be drawn to you. It starts with what you do best and how you want to grow – a narrow focus, a global strategy, a fund family, etc. Your ongoing marketing will then have a direction and logic for you and your investors

New developments – new opportunities

A changing regulatory environment – especially the US – is opening the way to new marketing tools needed to help build your brand.

More and more firms are using the media to help build visibility, credibility and differentiation. The accompanying chart shows a steady rise in media articles about hedge funds. And in each one of these cases, the managers talking to the press or being talked about need to understand how the process works and what they can get out of these important media interactions.

Also, a few more aggressive firms are trying advertising to reach intermediaries and direct to investors. The shift to Registered Investment Advisor (RIA) status among US managers is in part behind this trend and will be a driving force changing the landscape of hedge fund marketing in the years to come.

Building a brand doesn't happen overnight. Here's a place to begin your thinking – "6 Principles for Developing Your Brand":

- 1) Target ideal investors
- 2) Understand investor desires and fears
- 3) Assess the competition
- 4) Determine key differentiators
- 5) Implement compelling and consistent messaging
- 6) Adjust as the marketplace evolves

With a strong brand, managers can compete in a crowded market, diversify their marketing beyond performance numbers and build a business for the long-term.

Increasing Media Coverage of Hedge Funds

