



Alternative View

June 2009



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On the firm's 10-year anniversary in 2008, Walek & Associates earned the Boutique Public Relations Firm award from *Hedge Fund Journal*, which cited the agency's "formidable global hedge fund practice." www.walek.com.

Hedge Fund Investor Relations: New Demands, New Strategies

The following is an edited transcript of a presentation I gave recently in Hong Kong to a group of hedge fund managers and investor relations executives. The topic was "Hedge Fund Investor Relations: New Demands, New Strategies" and I discussed trends and issues in the changing landscape of hedge fund investor relations. Joining me for a panel discussion afterwards were Sandra Lee, Senior Vice President in Investor Relations at Paulson & Co. Inc. in Hong Kong, and Benjamin Happ, Head of Business Development at Abax Global Capital, Hong Kong.

The event was hosted by The Alternative Investment Management Association (Hong Kong). My thanks to Jo Orgill and Christophe Lee of AIMA for their invitation to speak and their gracious introduction.

I hope you find this transcript of interest as you develop your marketing communications plans for this new era in the hedge fund industry.

I welcome any comments you may have.

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Good evening and thank you for coming.

In the more than the 10-year history of Walek & Associates, we have been fortunate to work with some of the biggest and best traditional asset managers and hedge fund managers in the world, as well as with many smaller, up-and-coming firms.

We look after our clients – large and small – by helping them with marketing communications and the media. More and more, we are talking with hedge funds about investor relations, so I'm both happy and not surprised to see the excellent turn out today.

Our topic is "*Hedge Fund Investor Relations: New Demands, New Strategies.*"

The following are some observations that guide my thinking on the issues and trends impacting hedge fund investor relations today.

So where do we start? Like all good things, let's start on the golf course

What a great place to be and what a great place to do business.

At a panel sponsored by *Institutional Investor* magazine in January of this year and attended by some 50 marketing executives from many of the leading hedge funds in the world, my firm spoke about investor relations and investor communications. Overall, the audience was frustrated and confused about its inability to communicate with clients, retain clients or raise new capital. To quote one industry observer, "the environment is brutal, just brutal."

One senior delegate summed up the feeling of the audience when he said, "I can't wait for things to get back to normal so we can get back on the golf course and get some business done."

I have four initial observations for you today... and they start right here.

Put the golf clubs away!

We are not going back to normal, whatever that was one or two years ago.

Chaos and turmoil are destroying the old world and defining a new world. Globalization, market volatility, fraud, bad performance, Ponzi schemes, a loss of trust, gates, fund closures, new technologies and new regulations have changed and will continue to change our world.



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So point number one is accept the change ... and most importantly for today's presentation, accept the change in the role of hedge fund investor relations.

Point number two is: Understand your new customer.

As you accept the change in your own world, you also must accept that your investors and prospects have changed. They feel burned. They are frustrated. They have lost a lot of money and in some cases can't even get their money out. They are more demanding. And most importantly, they don't trust you anymore.

My third general observation is this, find a new balance.

If you look at the typical hedge fund set-up, it is basically a division of labor into three areas – first is portfolio management, second is administration and third is sales.

The focus and ownership at most hedge fund companies has typically been on the portfolio management side of the business. What we have long advocated and are now finding increasing interest in is a rebalancing to increase the emphasis on the marketing/sales/ investor relations functions. This is happening, albeit slowly.

As marketing, sales and taking care of clients emerge as a more important function at hedge funds, it is a sign of maturity in our global industry and a sign of the new strength of the next generation of hedge fund leaders.

Finally, my fourth point is that you must welcome this challenging environment.

Change is good and healthy. This is the time to start using new strategies and new tools in hedge fund investor relations. This is the time for new leaders in the hedge fund industry. We are seeing and will continue to see dramatic change in the hedge fund leader board globally, in Asia and in this room. I encourage you to be part of this change and make it work for you.

Three New Strategies

So what exactly does all this mean? Let me touch on three new strategies in hedge fund investor relations.

1. Investors demand a relationship – not a transaction

Performance is not enough – even if you have it now – because no one has it forever. Hedge fund manager arrogance is a thing of the past. Not communicating when times are good is no better than not communicating when times are not so good.

Today's investors want to know what is going on. They want to know the people doing it. And they want to be in the loop and understand when things change, good or bad.



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2. More transparency

In response to demands from investors as well as regulators, there is a need for more information, more disclosure, more detail and more openness.

We haven't yet talked about regulatory pressures for change, but let's do that for just a minute. In the U.S., for example, the President's Working Group is recommending comprehensive investor disclosure by hedge funds based on the model used by publicly traded companies in the West.

The Group's best practices report recommends that hedge funds "provide investors with a comprehensive summary of their performance, including a qualitative discussion of hedge fund performance and annual and quarterly reports. Make timely disclosures of material events and produce independently audited GAAP-compliant financial statements so investors get accurate, verified financial information." These would be big changes.

3. Build a brand

For hedge funds, as you build a brand you build relationships and you build client loyalty...above and beyond your latest performance numbers. If we've learned one thing in the last year, it is that hedge funds must have more than just a performance-linked, transaction-based relationship with their investors.

When done effectively, building a hedge fund brand involves a smart combination of investor relations, marketing, media relations, reports, letters, conferences, web site and overall communications. It takes place over time and becomes part of everything that you do.

Let's look at client letters, for instance. Investor relations and client service are at long last getting involved in writing these monthly communications. Client letters have become one of the most public faces of many hedge fund companies, thanks in a large part to the media publishing all or part of these letters almost immediately upon distribution.

Another element in brand building is the media. They are constantly reporting about every development among hedge funds and can be counted on to continue to do just that. This must be managed. Media visibility and branding is also an important part of your marketing "pull strategy" that can be very productive in attracting assets and building your business.

Conference calls and annual meetings are similar. Again, like public companies, for hedge funds, these can be effective investor relations efforts that must be crafted and executed in line with your overall brand building efforts.

Here to talk about these issues from the perspective of investor relation executives are Sandra Lee and Benjamin Happ. Sandra is Senior Vice President of Investor Relations at Paulson & Company. She opened the firm's Hong Kong office in September 2008, and previously worked at Morgan Stanley.



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Benjamin is Head of Business Development for Abax Global Capital, which has raised nearly \$700 million for the firm's five funds, which include special situations, Asian macro and credit. He is also a Morgan Stanley veteran.

And now, I'll turn the microphone over to Sandra and Benjamin.

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