Family Office Club

CapitalCon

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"Best Practices from A to Z for Successful Hedge Fund Fundraising from Family Offices and Institutional Investors – 26 Top Fundraiser Secrets and Tips of the Trade"

Topics

- Brief Introduction / Bio

- Hedge Fund Cartoon

- 26 ("A to Z") Tips and Best Practices for Raising Investment Funds from Family Offices and Institutional Investors

This presentation first addresses best practices and tips that are specific to raising fund capital from family offices, and then those tips that are applicable to all investors, including family offices. Some of the discussion is specific to hedge funds. But most of the presentation and practice points also are equally applicable to private equity funds as well.

(Copies of the slides are available to all attendees.)

Brief Introduction / Bio

- Evan Katz, Managing Director, Crawford Ventures

- Wharton, Bachelor in Science (Finance Major), *summa cum laude*

- Harvard Law School, J.D.

- Twice-Elected Director, Hedge Fund Association (HFA) Board of Directors – *If you work with hedge funds, but are not yet a member, you should join!*

- 15+ Years of Fundraising for Funds and Companies: Mostly Hedge Funds and Private Equity Funds

Investor Base Summary

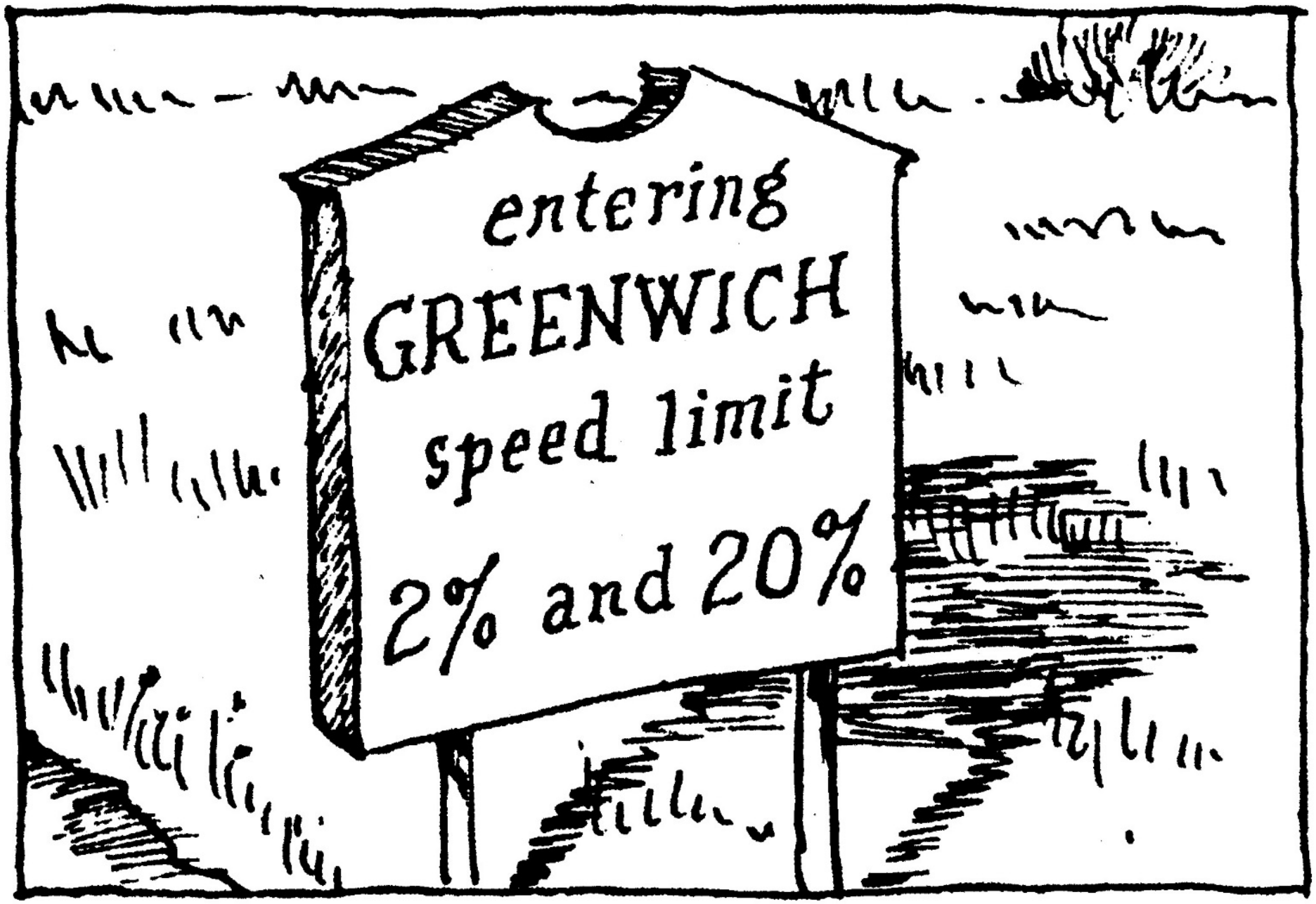
- ~1,000 Institutional and Family Office Investors

- Broker/Dealer Platforms, Endowments, Foundations, Funds of Funds, Insurance Companies, Multifamily Offices (“MFO”), Outsourced Chief Investment Officers (“OCIO”), Pensions (Private and Public), RIA’s, Seeders/Accelerators, Single Family Offices (“SFO”)

- Typical Investor Allocation: $10-$100+ Million (Per Investor, Per Fund)

- Typical Target Fundraise: At Least $500MM-$1B+ (Preferably $1-2B+) Per Fund

Hedge Fund Cartoon



"Best Practices from A to Z for Successful Hedge Fund Fundraising from Family Offices and Institutional Investors – 26 Top Fundraiser Secrets and Tips of the Trade"

- Some of you already may know some of the 26 tips and best practices that I will be discussing.

- But the tips that you do not can help get you many additional investors and allocations.

- And those additional $10-$100+ million allocations can appreciably increase your fund AUM and firm revenues.

Family Offices are Different than Institutional Investors

- Most family offices are not listed in investor databases.
- Moreover, many do not like to be cold called.

Tips and Best Practices:

A. *Accordingly, if you yourself do not already know the family office community, hire someone who does! If you hire a fundraiser who knows only big endowments and pensions, he/she will not be successful with FO's.*

B. *This especially applies where there are very large groups of family offices in other countries (e.g., Switzerland) that allocate substantially to hedge funds and private equity funds. Hire a great local fundraiser.*

Most Family Offices Prefer (or at least are open to) Funds with a Higher Return and Risk/Volatility Profile

C. *You likely will get a better response to your fund if your returns are greater, even if that means greater volatility and drawdowns. As one billion-dollar family office has said to me, "We can withstand volatility and market cycles, so long as we make substantial returns."*

D. *If applicable, and consistent with your strategy, consider using somewhat greater leverage (or, alternatively, perhaps have a separate share class that employs greater leverage). I know a great fund that lost potentially hundreds of millions of dollars of likely investor allocations because they "only" made 6-7%/year and obstinately refused to add the very modest 1:1 leverage that investors had requested. If you want to raise substantial capital, listen and accede to reasonable investor requests!*

Family Offices Are in High Tax Brackets, Whereas <u>Many Institutional Investors are Not Taxable at All</u>

E. *Your fund likely will not get a great response from family offices if it "only" has mid-high single digit returns (because the after-tax return to the families are simply seen as too small).*

F. *If your fund's returns are mostly tax-efficient (e.g., long-term capital gains, future contracts), emphasize that in your one-pager and PPT. Because your effective after-tax returns will be substantially greater! I have been sent hundreds of fund docs, and the vast majority of tax-efficient funds never mention it!*

G. *If you are going to have many family office investors, consider setting up an insurance-dedicated fund, which enables families to invest in your fund tax deferred.*

Show the Family Offices How Your Fund Helps Them by **<u>Enhancing Their Overall Portfolio and Expected Returns</u>**

(But, Unlike Endowments and Foundations, Family Offices Do Not Publish Their Current Fund Investments)

H. Emphasize and show to family offices how your fund (e.g., hedge fund) is less or negatively correlated to the S&P and/or hedge fund indexes.

I. Even better, ask the family offices what hedge funds they already are invested in (or the funds' historical performance), and then do and show them the correlation analysis. (With endowments and pensions, you typically can look up their other investment funds.)

Do Not Overlook the Multi-Family Offices

J. There are dozens of multi-family offices ("MFO"), and your getting your fund approved by any one of them thereby can get you allocations from many family offices (sometimes simultaneously or in relatively close succession).

Although most MFO's often can take longer to make decisions than do most SFO's, and MFO's sometimes can be more bureaucratic (somewhat similar to endowments, foundations, pensions, et al.), the payoff – multiple allocations from many families – can be well worth it.

Do Not Overlook the OCIO's

K. *There are an ever-increasing number of outsourced Chief Investment Officers (OCIO's), and they control trillions of dollars of investment assets. Accordingly, and as with MFO's, your getting approved by an OCIO can result in your fund getting multiple (and often very large) allocations from numerous investors.*

NB: Unlike consultants and advisors, OCIO's have the discretion and authority to make investment decisions, "pull the trigger" and allocate to your fund! There also are some very helpful databases/listings of OCIO's. And most OCIO's tend to be more open to cold calls (although one must follow proper legal and regulatory procedures for doing so) than are most family offices.

Additional Best Practices That Apply to All Investors

L. *Hire a Smart Fundraiser Who Knows Your Strategy – You will raise a lot more money a lot quicker. It makes a very bad impression on investors if your fundraiser cannot answer detailed or sophisticated questions.*

M. *Hire a Fundraiser Who Has Experience with Funds of Your Size – For example, if you are, say, a $50MM fund, do not hire a fundraiser who only has been at $1B+ funds and only knows huge endowments, foundations and pensions. Because only very few of them will allocate to a sub $100-$250MM fund.*

N. *Number of Investors to Contact – All fundraising is somewhat a "numbers game". You are going to have to call and e-mail hundreds of prospective investors in order to get dozens of them to allocate to your fund.*

O. *Prequalifying Investors by Strategy – As soon as you can, determine how interested each of your prospective investors is in your strategy and type of fund, and allocate your time, resources and efforts accordingly.*

P. *Determine the Appropriate Investor Contact Person – Especially at larger institutional investors (as well as some of the larger FO's), you need to accurately determine and confirm that you are speaking with the correct person for your strategy and type of fund (e.g., Mary covers hedge funds and Steve covers fixed income).*

Q. *Get to Know and be Very Nice to the Investors' Administrative Assistants! – They sometimes can be a big help to you in getting your documents read promptly and, assuming that you have a quality fund, getting calls and meetings with the investment team.*

R. *<u>Consider Making a Short Fund Video</u> – These can be extremely effective techniques for introducing your fund to investors, explaining why your fund is compelling, and giving your prospective investor a chance to hear how brilliant and articulate your PM is! That is, a great video gives investors a "free look" at your fund, without them having to commit to a lengthy conference call or meeting.*

And in today's world, where videos have become ubiquitous (e.g., YouTube.com, Bloomberg, CNN.com, etc.), and as investors frequently are on trains and airplanes, they have both the time, ability and inclination to watch and check out a compelling short (i.e., 2-4 minute) fund video.

I can refer to you to some great companies that make fund videos that are both highly compelling and attractive.

S. *<u>Frequency of Contact</u> – Optimally about once every 3-4 weeks. Any more frequently and you are a pest. And if you make contact only quarterly or less, investors may forget who you and your fund are, and you also will lose valuable time.*

T. *<u>E-mail Contact</u> – Most investors prefer e-mail, because it is efficient and their meeting and phone time is very limited (especially as they get pitched by hundreds, if not thousands, of funds ever year). Indeed, some investors will never answer unscheduled external calls at all. And some of their outgoing voicemail messages expressly state that they prefer e-mail, do not check voicemail, and will not respond to messages left by funds. For those investors, respect their wishes and, at least initially, stick to e-mail, until they express interest.*

U. *<u>Mobile Friendly E-mails and Docs</u> – Ensure that your IT systems are producing e-mails and fund docs that are mobile friendly. With everyone, including investors, spending more time on mobile phones and tablets, do not create and send to them e-mails nor PPT's, for example, that have a ton of content per page, all in very small font, and that therefore are difficult, if not virtually impossible, to read on an iPhone or Android smart phone!*

V. *<u>Phone Contact</u> – Notwithstanding the above, some investors are more "phone friendly" and are more open to schmoozing and discussing funds, strategies and opportunities. Keep good notes regarding which investors are open to the occasional update call. And if you also have junior people working on the fundraise, make sure that they are making phone calls, because studies show that Millennials love to text and e-mail but many tend to avoid and not make telephone sales calls!*

W. <u>"Tick-Tock" E-mail/Phone Contact</u> – I have found to be very effective and successful alternating between phone calls and e-mails every several weeks (e.g., a call every six weeks, and an e-mail every six weeks, with the investor thereby getting one contact every three weeks).

X. <u>"Hold Back" Some Docs</u> – It typically is best to intentionally "hold back" some fund documents, and to not send all of your fund docs right away. There are several reasons for this, including: (1) If you send all of your fund docs in the first e-mail (e.g., one-pager, PPT, DDQ, OM/PPM, LPA, video, etc.), investors are more likely to read a different fund's docs! (2) If you save a few docs for later, it gives you a "reason" to send to investors a follow-up e-mail in another month or so.

Y. *<u>Do Not Give Up – Keep Following Up</u> – Unlike dating, most investors will say a clear "No, thanks" if they are not interested in your fund (because they do not want to keep getting your calls and e-mails regarding an investment that they are not going to do!). Accordingly, a non-response most often means that an investor is just swamped with other work. Indeed, I have gotten many large allocations from investors who did not return the first two phone calls nor reply to the first two e-mails. They were just very busy, and only got to focus on my fund when I made or sent call/e-mail number three!*

NB: The trick, most effective and best practice is what I like to call "Polite Persistence". And when in doubt, err on the side of always being very polite and a little less persistent.

Regarding the Ubiquitous Monthly
Hedge Fund Performance Update E-mail

(These tips are *critical* to getting your e-mails noticed, opened and read!)

E-mail Subject Line:

Z. Put both the recipient's name and your name in the subject line (e.g., "To Mary and Dave, From Evan").

AA. Reference your prior meetings and conversations.

BB. Include some positive information about your fund.

Example "A+" Model E-mail Subject Line:

"To Mary, From Evan: Follow-Up to Our Conversation re the Top-Decile XYZ Capital Long/Short Fund"

E-mail Body/Text:

CC. Do not, under any circumstances, simply state "Please see the attached update."!! Investors receive hundreds or thousands of fund pitches ever year, and the funds/e-mails that make them do more "work" (click, download, etc.), often will be left and end up on the bottom of the heap!

Indeed, I get pitched by a ton of funds that want me to invest in them, and I never go any further with an e-mail that simply says, "Please see the attached update", as I am working 60+ hour weeks, and simply do not have the time. And many investors have confirmed to me the same thing.

DD. Include in the e-mail body (1) a very short reminder about what your fund does and (2) what the attached update says (e.g., how your top-quartile long/short TMT fund was up +3.86% last month, and now has a great five-year track record with a Sharpe Ratio of 1.79).

EE. Conversely, do not, under any circumstance, send to investors e-mails that are so long that they take up multiple screens! Those will just make investors' eyes "glaze over". Again, investors are buried in hundreds if not thousands of fund pitches, and, as human beings, they naturally will tend to skip over the fund e-mails that are the e-mail equivalent of "War and Peace"!

Remember and keep in mind the increasingly popular acronym "TLDR" (which now has several million Google hits), which means "Too Long; Didn't Read"!

NB: The goal of your e-mail subject line is to entice the recipient investor to open your e-mail, and the goal of your e-mail content is to entice the recipient investor to take his/her very limited time and "invest it" in opening and carefully reviewing your fund's documents!

Q&A: Any Questions?

Contact Information

Please feel free to call or e-mail me if you have any questions, would like copies of the slides, or would like to further discuss any of the above topics:

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