Ullrich Angersbach

What Works in Hedge Fund Marketing and Investor Relations

who, together with a team, raised $2 billion in five years from professional investors worldwide

Part 1: How to Attract Prospects
1.3 What to Consider When Launching Your First Fund
1.3.1 Seed Capital

Anyone starting a hedge fund business has several personal prospects. Only very few of them will be ready to invest as "early birds" in a start-up company with no proven track record. How can you secure the seed capital needed to start your fund?

- "Put your money where your mouth is!" It is critically important that the first subscriptions come from the founders. This is a sign to investors of personal commitment, and aligns managers' interests with investors' interests. Down the road, this provides you with a strong argument when trying to secure your second wave of early outside investors.

- An alternative way to begin to manage additional money is with a seed capital provider. These providers have flourished over the past years and include several different categories of investor, from venture capitalists to banks to wealthy individuals. Be aware that most seed capital providers expect future equity and/or revenue from your business.

- Generally, for each $1 million invested, you can expect a seed investor to take 1% of equity or top-line revenue from your business. The investor may also request reduced fees (management and incentive) for their investments. The seed provider's investment is typically locked-up for a number of years given specific fund performance and risk parameters. Some seed capital providers may be active, private equity type investors who intend on becoming in volved with the management of the company, such as in the back office and with marketing, operations, and trading, while others simply provide investment funds.

Important: The nature of a seed capital agreement should be fully understood before accepting seed capital.

1.3.2 Private Placement

After we exhaust our Rolodex, we need additional prospects. According to the rules of the fund's private placement, the fund had to be marketed without using public advertising or solicitation. This makes selling a private placement one of the most challenging jobs for marketing professionals.

Marketers (both in-house and third party) of private placement funds are only allowed to approach people they already know, or with people with whom them have a "preexisting relationship." This rule is intended to protect inexperienced investors from taking risks beyond their means.

Private placements also only allow for investments from qualified investors (see below). Lawyers sometimes describe this as a "pull as opposed to a push approach," as you cannot actively advertise your fund (push), but if a qualified prospect approaches you (pull), you may accept funds from this investor.

This book will show you a number of ways to "pull" investors to your fund.

1.3.3 Qualified Investors

As a successful hedge fund manager, sooner or later you will attract investors from all over the world. Almost every country has its own set of rules regarding "qualified investors." We suggest that you set up a master feeder fund. The flexibility of a master feeder fund allows you to design country/investor-specific feeder funds to invest into the master fund.

1.3.4 Service Providers

If you want to play in the major leagues, make sure that you choose service providers with outstanding reputations in the hedge fund industry. Avoid trying to save money by settling for unknown service providers. Prospects will look at the reputation of your providers and this will, to some extent, influence their judgment of you.

Therefore, before you select a service provider, make sure that it belongs to the top 10 in the hedge fund business and is well respected. Where do you find the highest ranking providers? A good starting point is www.alphamagazinerankings.com. You are probably aware that the fixed costs or minimum charges from service providers can be a significant burden for your fund if your AUM falls under $20 million.

Therefore, try to negotiate reduced fees for the first six or 12 months. That will allow your fund's performance to be more competitive and will help it grow more quickly, which will also benefit your service providers.

While you are still a small player, make it a point to demand to be treated like the big funds, especially when the fund administrator needs to produce the monthly net asset value (NAV) calculation (no later than the second week of the following month) and with respect to how long he takes to respond to questions from your prospects and investors (24 hours, if possible). These terms should be part of your agreement with your fund administrator.

It is critical that the prime broker work closely with the fund administrator. Ideally, they have a track record of working together effectively. We also recommend that you check the references of your fund administrator from other hedge fund management companies!

Important: Appoint someone in your organization who will ensure that your service providers receive the information that they need in a timely fashion. If your service providers are managed correctly, your prospects and investors will also receive information in a timely and proper fashion.

The following is a list of the primary service providers that you need and what they do:
Primary Service Providers:

Prime Broker	Generally, prime brokers provide a trading platform, clearance, leverage, custody, back-office support, and other services.
Administrator	Generally, administrators provide net asset value calculations, operate the fund's bank accounts, take care of subscriptions and redemptions, apply money laundering procedures, issue payment instructions, and calculate management, performance, and other fees.
Auditor	Generally, auditors provide an annual audit of your fund's financial statements. They may also provide accounting services.
Legal	Generally, legal advisors assist with fund and company documents, such as the offering memorandum and various service agreements. They also provide ongoing advisory work on regulatory, structural or tax rules.

1.3.5 Know Your Customer (KYC)

Money laundering procedures are normally delegated to the fund's administrator. More detailed documentation is usually required if funds are being transferred from somewhere other than a Western bank of good standing. In this case, the administrator typically deals directly with your investor and will ask for legal documents and proof that the money was earned legally. In our experience, administrators accept money from custodians (nominees) if their standing gives the administrator the right to assume that the custodian has done its job. In other words, the administrator assumes that the compliance officer of the custodian has ensured that the investor has not engaged in money laundry (white-washing of money earned through criminal activities).

In such cases, the fund manager does not learn the names of the ultimate beneficial owners. Such situations often occur when dealing with investors with bank accounts in countries with strong bank secrecy laws, such as Switzerland.

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About the Author

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Mr. Angersbach, a consultant on hedge funds, was the head of marketing support and investor relations for a start up hedge fund management company. During his tenure of five years, assets under management (AUM) grew from a seed capital of approximately $8 million to about $2 billion. In 1979, Mr. Angersbach received a master degree in business administration from Ludwig Maximilians University, Munich, Germany (Diplom-Kaufmann). Thereafter, he was a lecturer in accounting and finance and worked for an auditor. In 1982, Mr. Angersbach became vice president of a real estate investment company. Two years later, he joined Germany's then largest independent wealth management company. After four years, he became vice president of their branch office in Atlanta, Georgia. Since 1992, Mr. Angersbach has worked for two banks (CL and DZ) in Frankfurt, Germany. From 1995 till 2001, Mr. Angersbach was the CEO of a family office in Zurich, Switzerland, investing in private and public equity. In 2002, he joined the aforementioned hedge fund management company.

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